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Towards Positive Social Change: the evolution of transformation in the South African Financial Services sector

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Abstract

South Africa's democratic transition towards social and economic equality is under constant scrutiny, challenged by rising levels of unemployment, poverty and inequality. Since 1994 the African National Congress government has enacted various legislative interventions to change long-established racial distortions of economic opportunity and wealth accumulation, a number of which target business.

The response and role of business in such an environment remains contested, both in literature and practice. There were (and are) calls for the role of businesses to evolve beyond narrow profit maximisation to play a more active part in economic and social transformation. Against this backdrop the Financial Sector Charter was collaboratively developed between the industry and its social partners in 2003 as a route map for such change.

Employing a critical realism approach with a longitudinal perspective, this qualitative study explores the perspectives of key protagonists of the Financial Sector Charter on their experiences of developing and implementing the initiative: how it came into being, how it was applied and what could be done differently.

Based upon semi-structured interviews with senior leaders from industry, government, black business, trade associations, labour and NGOs, the study reveals a number of issues: a deliberate attempt to leverage the capabilities and competitive forces in the industry to drive change; contestation within government over this approach; and a desire to use the capabilities of the industry to "reset" the country's current path of economic transformation.

The significance of the study lies in the hitherto undocumented exposure it gives to the perspectives of the people involved in this unusual form of cross-sector social partnership and their efforts to catalyse positive social change not only in the Financial Services industry but in South Africa more broadly.

Keywords: transformation, B-BBEE, Financial Services, Financial Sector Charter

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Lastly, Michael, you will be pleased to know "The Book With No Ending", is now finished.

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1 Research Topic

1.1 Introduction

> "We, the parties to this charter, therefore commit ourselves to actively promoting a transformed, vibrant, and globally competitive financial sector that reflects the demographics of South Africa, and contributes to the establishment of an equitable society by effectively providing accessible financial services to black people and by directing investment into targeted sectors of the economy."
>
> – Preamble to the 2003 Financial Sector Charter

1.2 Research Area and Problem Statement

As a developing, middle income country emerging from a long history of injustice, South Africa's journey to create social and economic equality is under constant scrutiny. Both popular and business writing and political rhetoric regularly allude to the country's triple challenges of poverty, inequality and unemployment remaining unsolved, indeed growing more acute, twenty-five years since the first democratic elections held in 1994. The economic legacy of colonialism and apartheid bequeathed to the "new" South Africa in 1994 saw the majority black population deprived of the right and means to accumulate assets and build up inter-generational wealth (Terreblanche, 2002). Transforming this economic legacy was – and remains – one of the core policy drivers of the country's democratic governments, led by the African National Congress ("ANC"). Indeed, the 1994 election manifesto of the ANC stated "It is not enough to talk of equality. Especially when the vast majority of our people have been left behind by a system that excluded them by law and deprived the country of the contribution they could have made." (African National Congress, 1994b).

While many countries exhibit similar issues of inequality and unemployment and in particular youth unemployment (Standing, 2011) in South Africa this situation is particularly acute. Poor educational outcomes and persistently high unemployment in general and amongst the country's youth (Statistics South Africa, 2018) have led to Nobel laureate Paul Romer describing the marginalised youth of South Africa as a "human catastrophe" (Presence, 2019).

Similarly, the country's office of national statistics, publishing a report examining the country's demographic dividend, noted how the country was in danger of being unable to harness the productive and fiscal benefit of its many young people entering the ranks of the workforce in the years ahead (Statistics South Africa, 2017). South Africa could therefore be described as exhibiting what Martin and Osberg (2007) describe as a "stable yet unjust equilibrium which excludes, marginalizes or causes suffering to a group which lacks the means to transform the equilibrium"; this description is especially apt in respect of South Africa's growing youth population.

Mindful of its 1994 election promise, the South African government has introduced various forms of affirmative action-type legislation to start to counter the more pervasive effects of the apartheid era. This legislative thrust has looked to target the business arena, following the logic that the political transition achieved in 1994 could not be complete without a significant level of economic transformation (Southall, 2004) and this meant changing many of the discriminatory practices in business. Accordingly, since 1997 a number of laws have been introduced that affect various aspects of business: hiring practices, procurement policies, skills development and the management control of enterprises. And following research conducted by the Black Economic Empowerment Commission between 1999 and 2001, the Broad-Based Black Economic Empowerment Act ("B-BBEE Act") (South Africa, 2004) came into force which has had a profound effect on the way in which many businesses operate in this country. Indeed, this piece of legislation carries the hallmarks of what De Schutter (2008) describes as "affirmatively created" regulation by government, using its legislative mandate to begin to address the wealth deficit issues widely prevalent in the population. The B-BBEE Act applies generically to all sectors of the South African economy, unless sector specific variants are developed and approved by government.

The Financial Services sector in South Africa has not been immune to these legislative developments. As has been described by local research (Hamann, Khagram, & Rohan, 2008; Moyo & Rohan, 2006; Patel & Graham, 2012), in the early 2000s the sector was the subject of a sustained civic protest campaign conducted by community groups and political parties who argued the industry was not catering for the financial needs of the majority of the population while many of its practices retained elements of racial discrimination. However, the Financial

Services industry, in recognising it was suffering from a crisis of legitimacy in the eyes of many citizens, chose not to wait for empowerment legislation (the B-BBEE Act) to dictate how it should be transformed. Instead the industry chose to embark upon a different path of developing a bespoke model for economic transformation through a cross-sector social partnership (Selsky & Parker, 2005) involving its main stakeholders, in the form of an industry-specific charter (permitted under the B-BBEE Act). This model became known as the Financial Sector Charter and it is this model that is the primary subject of interest of this thesis: how the Financial Sector Charter was conceptualised, developed and implemented in the period from 2003 to 2018.

The introduction of the B-BBEE Act and the sector's bespoke approach has been regarded in academic analysis in the early years post their introduction with a mixture of criticism (Hamann et al., 2008) and cautious optimism (Moyo & Rohan, 2006; Southall, 2004) as a means of furthering the economic transformation project in the country. Yet 15 years on, much of the collaborative partnership and innovative thinking that drove the development of the Financial Sector Charter and the design of the B-BBEE Act has been lost, including the spirit of partnership between the role players (business, government, labour and civil society) that existed immediately following the development of the Charter. At the same time poverty, inequality and unemployment have grown worse; as a measure of inequality, the country's Gini co-efficient has remained range-bound between 0.67 and 0.64 (2006 to 2015), unemployment has climbed steadily with youth unemployment exceeding 50% (on the expanded definition of Statistics South Africa; see Figure 1). Official Gross Domestic Product data shows that since the recovery from the 2009 recession, real GDP and real GDP per capita have seen a steady decline, with SA's population growth exceeding economic growth in recent years (see Figure 2).

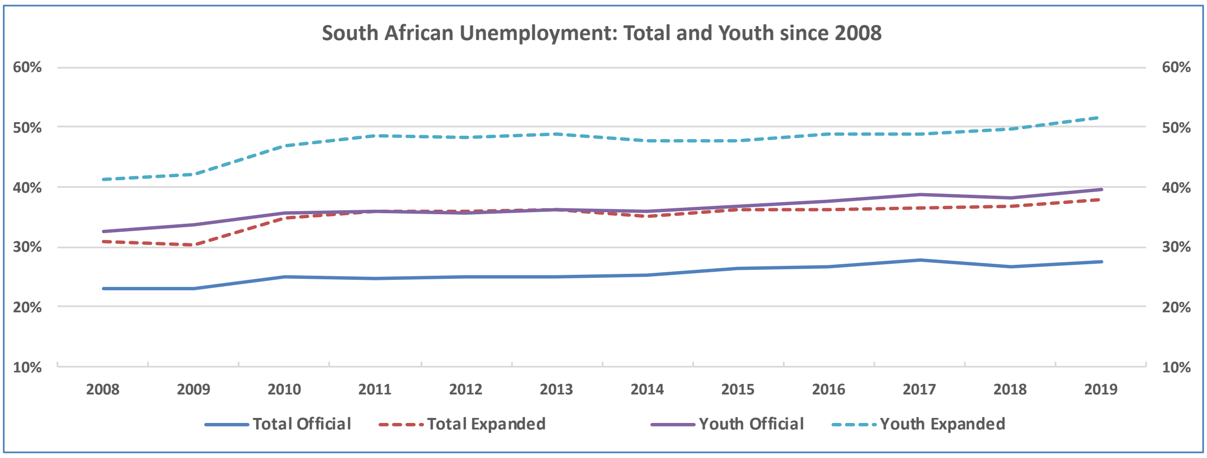

Figure 1. SA Unemployment (Statistics South Africa, 2019b)

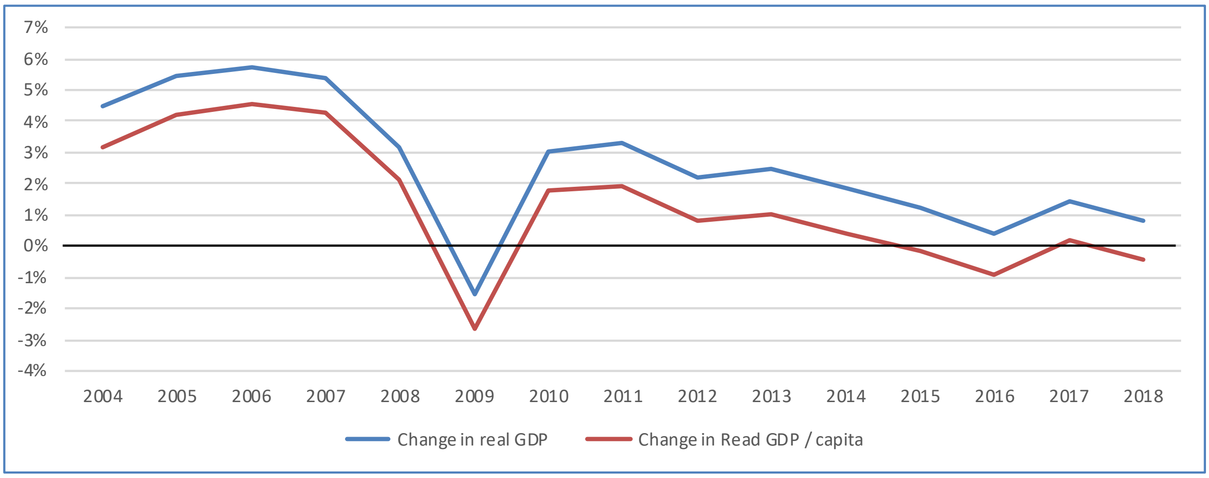

Figure 2. SA GDP and GDP per capita (Economist Intelligence Unit, 2019; Statistics South Africa, 2019a)

Yet in the face of both the affirmative action legislation and the wider economic challenges in the country, the Financial Services sector has remained resilient (despite a failure by government to officially recognise the Charter until 2012): the market capitalisation of the Top 15 financial companies listed on the Johannesburg Stock Exchange has grown from R238bn at the end of 2003 to R1,572bn by the end of 2018 (IRESS, 2019). Employment levels in the sector have grown over the period (from 12% of the employed labour force to 16% (Statistics South Africa, 2019b).

Was the alternative approach to transformation adopted by the Financial Services sector a factor that helped it navigate the past 15 years? And is the sector now able to leverage is own resilience and capabilities, to create that "more equitable society" sought by the 2003 Financial Sector Charter's preamble?

1.3 Conceptual Enquiry Motivating the Research

South Africa's triple challenges of poverty, inequality and unemployment are not unique; indeed youth unemployment has for example been highlighted as a pressing global issue (Standing, 2011). Efforts to address global poverty are regularly being considered by academics, researchers and global organisations such as the United Nations (Banerjee & Duflo, 2011), including the role of business in addressing these issues (United Nations, 2015).

At a political level, the role of business is acknowledged by the United Nations' Millennium Development Goals ("MDG") project (United Nations, 2001) which aimed to tackle global issues (poverty, education, health and the environment) between 2000 and 2015, through a global partnership between governments, civil society and business. This role and the concept of partnership was extended by the successor programme to the MDGs, the Sustainable Development Goals ("SDG"), specifically through Goal 17: "A Partnership for Development" (United Nations, 2015).

Whilst there has been much focus in contemporary academic literature on the social entrepreneurship side of business as a potential answer to addressing grand (and less grand) social challenges (for example, Stephen, Patterson Kelly and Mair (2016) screened over 10,000 sources of social entrepreneurship literature in their paper), it is the potential role of a traditional *for-profit* business in the same context that is the focus of this thesis. This potential is addressed by Young in his book *The Road to Moral Capitalism* (2014), written in part as a response to the global financial crisis of 2008/9. Young notes that while "capitalism is here to stay", and despite "significant recent progress in promoting corporate responsibility and better governance, unacceptably high levels of debt, unemployment, inequality … still prevail in the global marketplace." Since the 1960s academic writing has looked at the role of business in depth, for example with the Milton Friedman view of profit maximisation (Carroll & Shabana, 2010) evolving to Porter and Kramer's concept of shared value (2011) to the contemporary focus on the potential of social entrepreneurship (Mair & Martí, 2006). The concepts of Corporate Social Responsibility (Carroll & Shabana, 2010) and operating under conditions of ambidexterity (Hahn & Figge, 2015) to balance competing internal and external logics (Alt & Craig, 2016), and the social impact of business models (Martí, 2018) all provide a rich conceptual canvass to explore the evolving role of business, and indeed the growing expectation placed upon it by society, in the face of the major intractable issues facing modern societies, also referred to as grand challenges (Ferraro, Etzion, & Gehman, 2015).

If there is a growing expectation that business should become involved as a "partner for development", what should the reaction of business be to this expectation? Should it embrace the opportunity and participate comprehensively, or should it react more passively?

In South Africa, the government itself recognised the importance of business playing a role in the social development of the country when it documented a blueprint for the country's development path to 2030 in a diagnostic publication entitled the National Development Plan ("NDP") (National Planning Commission, 2011). The role of business in making a contribution towards social development and addressing the broad aim of economic transformation features in academic writing by Bitzer and Hamann (2015) as does a growing body of literature on the politics behind the economic transformation policies of the ruling ANC party (see Southall, 2004; Tangri & Southall, 2008). Aspects of the B-BBEE Act and its impact on various industries, including the Financial Services sector, feature in local and international research since 2003 (Alessandri, Black, & Jackson, 2011; Hamann et al., 2008; Moyo & Rohan, 2006; Patel & Graham, 2012), providing a second conceptual pillar to this research.

Considering this writing there is evidently a paradox at play: the South African government recognises the role of business in furthering its development agenda (Southall, 2004), while it has also applied its legislative mandate since the late 1990s to enact affirmative action legislation that, with its various iterations and industry-specific features, has sought to intervene in the operations of business to address the economic legacies of the country's past. Yet 20 years since the first of these interventions, and 15 years since the B-BBEE Act was promulgated, there has been much criticism of the manner in which B-BBEE has been conducted, both as a form of policy (Morris, 2019) and in the manner in which it has been implemented by businesses (Carrim, 2017; Gqubule, 2018).

The third key conceptual pillar of this thesis relates to the development of Sovereign Wealth Funds (“SWFs”) as a long-term savings mechanism often derived from a country’s sale of natural resources such as oil and natural gas (Alhashel, 2015). While there are 78 countries with SWFs of one kind or another and in excess of US$8 trn of assets under management (Sovereign Wealth Fund Institute [SWFI], 2019) South Africa, despite having abundant natural resources (though not oil or gas in any great abundance) does not have a SWF. Whilst there have been discussions by government in recent years of setting up such a fund (Bisseker, 2018), the significance of the exploration of these SWF vehicles for this thesis lies more in the concept of intergenerational saving inherent in SWFs, and the features and typology of such funds that may inform the development of a new kind of social development endowment fund that is the subject of the praxis element of this thesis.

1.4 Purpose of the Research

The research opportunity, in the context of the acute social challenges in South Africa of poverty, inequality and unemployment (and specifically youth unemployment), is to explore how businesses in the Financial Services sector have adapted to this changing and unusual political dynamic: interventionist and confrontational on the one hand, yet consultative and collaborative on the other. As noted in the previous section, in 2003 the sector chose to develop its own model of how to address economic transformation, a model that sought to leverage the unique position of the sector as an intermediary in the economy between savers and borrowers, to begin to broaden the base of the population that would benefit from not just the sector’s transformational activities, but the broadening and evolving transformation of business in other sectors too.

The timing for such a study is opportune: 15 years after the design of the current B-BBEE legislation was introduced by government and its social partners, income inequality and unemployment remain high while the role of business in the broader social landscape remains contested. The study will seek to build on the well documented academic research areas of Corporate Social Responsibility, Positive Social Change, corporate ambidexterity and SWFs, together with research on B-BBEE, to understand what caused profit-seeking Financial Services companies operating in South Africa in 2003 to voluntarily go beyond the standard economic expectation of profit maximisation and devote financial resources to promote and enhance economic transformation targeted at the historically marginalised black population of the country; and what lessons they can offer from that experience.

This thesis is therefore an exploratory inquiry into the design, development and implementation of the Financial Sector Charter in South Africa, with the purpose of revealing to the academic community, business in this sector and others, and government, how this possibly unique form of “interest-based negotiation” (Hamann et al., 2008) took place, what its successes were, where it failed to live up to its promise, and how these lessons could be applied in a new approach to economic transformation in the country. Economic transformation is an ongoing journey in South Africa, a journey that has already undergone various iterations since the dawn of democracy in 1994. At a time of deep economic uncertainty and in the face of calls for change (Presidency of South Africa, 2018), perhaps there is a chance to develop new approaches and solutions that could start to address the triple challenges faced by the country. Those new solutions and approaches will be richer and more effective if they can be built off the successes and failures of the 2003 Charter.

Hence, the first purpose of this research is to understand the events and motivations that lay behind the formation of the Financial Sector Charter in South Africa up to and around 2003. The second purpose of this research is to extract the key factors that contributed to the successful design and development of the Charter, and those that hindered the fulfilment of its objectives. As will be shown by this thesis the Charter represented a highly unusual, negotiated collaboration between stakeholders with very different agendas. And with the benefit of hindsight, while there have been successes in its implementation, not all its founding aspirations (as set out in the Preamble at the beginning of this chapter) have been realised.

The third purpose of this research is to develop the conceptual foundations for the intended praxis that represents a core requirement of this MPhil degree: how can the financial "engineering" capability of the sector and the lessons from the past 15 years of implementing the Charter be applied more innovatively and inclusively to address the country's prevailing social ills, in particular the issue of youth unemployment. The model proposed in the praxis is the design of a new type of social endowment fund that targets the most marginalised youth of the country and is introduced more fully in section 1.6 below.

1.5 Significance of the Research

The research is significant for two reasons. Firstly, it offers direct insights into the aspirations, objectives, disappointments and frustrations of many of the key protagonists involved in the Financial Sector Charter. Many of the issues raised through this thesis have either direct or indirect reference in previous academic papers, particularly those written about B-BBEE, but not the perspectives of those on the "inside" of the Charter development process nor its implementation. This is the primary research gap that this thesis seeks to address.

Secondly, the Financial Services sector is a crucial component of a modern, functioning economy and South Africa is often lauded for how advanced this sector of the economy is (for example its banks were ranked 2rd in a 2016/17 competitiveness report of the World Economic Forum (2016)). Yet how can this expertise be leveraged to deal with the social challenges facing the country at a time when these are arguably more pressing than ever, and the nation is grappling to determine how best to "reset" its political and economic course following the May 2019 general elections? The original Financial Sector Charter set out to do precisely that, yet as this research points out, there are conflicting accounts of just how "well" it has achieved its original aims and objectives. This study thus provides an opportunity to look at not only the drivers of the Charter, how it was developed and then implemented, but to extract lessons learned from this 15-year implementation period and offer these to the business community, policy makers and academics. These parties may then benefit from the insights and apply them in such a way that a very real and pressing social problem can be addressed, such that that the gap between academic study and practical application can be narrowed.

1.6 Contribution to Practice

The MPhil Inclusive Innovation programme is a multidisciplinary research-based degree that encourages candidates to bring their prior knowledge to develop prototypes that will tackle a societal challenge (Graduate School of Business, 2019). The researcher has spent the past 15 years working in the Financial Services sector both locally and abroad and has latterly been directly involved in various facets of the implementation of the Financial Sector Charter within the company he is employed by. It is his exposure to the intentions and practical realities of a corporate response to the country's empowerment legislation that has left him feeling both frustrated and inspired. The frustration stems from the fact that the market innovations that flowed from the early years of implementing of the Charter have given way to what some commentators have described as tick-box compliance (Hidden, 2017). Yet he is also inspired because at a time when the country's needs are most pressing, perhaps the Financial Services sector can again pioneer a new approach and bring a renewed sense of purpose to businesses partnering to tackle the needs of the country.

The concept underpinning the proposed praxis is therefore the "identification of an opportunity and develop[ment of] a new social value proposition to challenge the equilibrium" (Martin & Osberg, 2007), an equilibrium that is skewed, thanks to South Africa's history, away from the majority of the country's black population. The legislative interventions introduced earlier in this chapter have been a deliberate attempt by government in the country to try to tilt the scales back: to "re-engineer" the equilibrium so to speak. However, as this research will point out, many of the targeted interventions have failed to address inequality across the broadest base of the population in a meaningful way. Nonetheless there are elements of the "technologies" or instruments that were developed by companies in response to the legislative requirement imposed primarily by the B-BBEE Act, that can be taken forward and applied in a different way, to deliberately target the needs of those segments of society that were not considered by the initial designs of the B-BBEE Act nor the implementation thereof by companies.

The proposed praxis therefore sets out the design of a long-term social endowment fund to financially resource one or more identified social causes in South Africa, such as skills development for unemployed youth. This fund would be established and funded by business as a voluntary extension of their current, wide-ranging B-BBEE commitments, to invest in the wealth generation capacity of young South Africans, through education and skills development. Akin to a Sovereign Development Fund, it would finance the development of young people's skills and capabilities to become productive economic agents. This is a counterfactual proposal to the existing construct (Dacin, Dacin, & Tracey, 2011) of wealth transfer inherent in much historic and contemporary discourse on B-BBEE, where existing wealth (equity) is merely transferred to new owners, a hallmark of current B-BBEE designs. The principle is thus to develop the skills of young South Africans so that they can become meaningful contributors to the economy by restoring a level of agency to them. If this can be achieved, then the country may be able to enjoy the benefits of the demographic dividend described earlier. In effect the proposed fund will amount to an "intergenerational savings mechanism while also helping current generations emerge from poverty" (Dixon & Monk, 2017).

Annexure 8, devoted to the praxis, will therefore cover the concept of the fund in detail, the funding structure and mechanism from which it will derive its capital base and income streams, a potential governance and legal structure, and the manner in which it will disburse this income to its beneficiaries. Leveraging existing research on Sovereign Wealth and Development Funds, together with the detailed mechanics of B-BBEE share transactions gained from the researcher's practical experience, the aim of the praxis will be to synthesize theory and practices in a new model that can be readily implemented.

1.7 Research Aims and Objectives

The timing for a study into the Financial Sector's charter-based response to the then untransformed nature of the industry is opportune. The election of new internal leadership by the African National Congress in late 2017 and the returning of the ANC to power in the May 2019 general election have brought the true "state" of the nation into focus with income inequality and unemployment stubbornly high. The State President of the country specifically alluded to the inequality gap and the need to address joblessness amongst young adults in his State of the Nation address in June 2019 (Presidency of South Africa, 2019).

The study sets out to extract the thinking and motivations of the leadership of major Financial Services firms and other social partners from government and civil society in South Africa, past and incumbent. The objective is to explore their attitudes in relation to this particular industry's journey of economic transformation. Hence the research question is framed as follows:

What factors motivated the development of the Financial Services Sector Charter in South Africa in 2003, and what lessons can be learnt from its development and implementation through to 2018?

In order to answer the research question, the researcher has developed a qualitative research approach, drawing on aspects of critical realism and grounded theory. This study carries, as has been noted previously in this chapter, a strong longitudinal element to it through its coverage of both the design and inception of the Charter in 2003, through the years of its implementation to 2018. The primary research instrument deployed by the researcher was a series of semi-structured interviews with the senior leadership of major financial services companies in 2003 and in 2018. Furthermore the interview sample included senior figures in government, community organisations, NGOs, black business and the trade associations of the sector, in order to ensure sufficient representativity in the sample for a range of diverse views on the subject of the Charter to be forthcoming. The intention behind the selection of this group of interviewees was – it is hoped – to reveal direct insights from the key protagonists involved in the Charter to understand what made it such an unusual endeavour. Interview findings were transcribed verbatim after which a recursive, yet critical analytical process was followed to set the interview data against various sources of secondary data to extract key themes arising from the interviews and categorise these into the research findings. The major findings were then discussed at length.

One of the primary limitations affecting this study is one inherent in a research Masters' degree of this nature: the time afforded to conduct the research and submit the thesis creates a natural limit on the amount of fieldwork that can be conducted. Despite this limitation the researcher was nonetheless able to conduct 22 interviews, drawn from across the categories of organisations described above.

A further scope limitation is that the subject of interest related to one segment of the economy only, namely the Financial Services sector, though as noted above it was a deliberate design decision to focus the research on the Financial Services sector. Although references are made to other economic sectors where appropriate for comparative purposes, these have not been covered in this thesis in detail. Finally, the Financial Services sector includes a diverse range of large and small companies within its ranks, across the primary segments of banking, long-term insurance, short-term insurance, asset management and real estate. This research has primarily focussed on the larger public companies in these sub-sectors, often with the companies being listed on the Johannesburg Stock Exchange, although other forms of organisation such as privately held companies, NGOs and civic organisations have also been represented in the interviews.

In executing these aims and objectives to consider the evolution of the Financial Sector Charter in South Africa through a process of design, literature review, fieldwork, analysis and considered writing of the chapters that follow, this research thesis aims to heed the call by local academics for more research into B-BBEE (Hamann et al., 2008; Patel & Graham, 2012) and by Martí (2018), noting the words of Emmanuel Levinas: "Further research is therefore needed on what factors lead organizations and individual managers, in the process of designing and implementing business models, to either develop and nurture a caring concern for the "other" based on 'pity, compassion, pardon and proximity' in the world or to fail to embody such attitude and maintain a general indifference to the suffering of the others".

1.8 Outline of Remaining Chapters

Chapter	Title
2	The Development of Black Economic Empowerment in South Africa
3	Literature Review
4	Research Methodology
5	Significant Findings Emerging from the Research
6	Discussion
7	Conclusion
	Bibliography
	Annexures

Table 1. Outline of thesis chapters

2 The Development of Black Economic Empowerment in South Africa

2.1 Introduction

This chapter describes the background to the political and other events from 1994 onwards that gave rise to the Financial Sector Charter in South Africa ("Charter"). The chapter initially considers the early steps towards black economic empowerment in South Africa, from economic policy intents adopted by the ANC-led governments with their redistributive focus, to various laws and regulations that were enacted to start to give effect to this policy intent (and its subsequent variations from 1994 onwards). The focus then narrows to a series of events that gave rise to the Charter being developed in the early 2000s, such as the establishment of the BEE Commission and civic protest directed at the Financial Services sector. The sector itself is outlined next, followed by the economic empowerment legislation that now governs the Financial Services and other sectors of the local economy. The chapter concludes with a look at how the extent of transformation across corporate South Africa is monitored and reported on.

The key events in the conceptualisation and development of the "instruments" of economic transformation of the South African economy are set out in the timeline below. The instruments range from evolving socio-economic policy frameworks, to the reports of investigative commissions, to various pieces of legislation and regulations. These are explored in turn in the subsequent sections of this chapter.

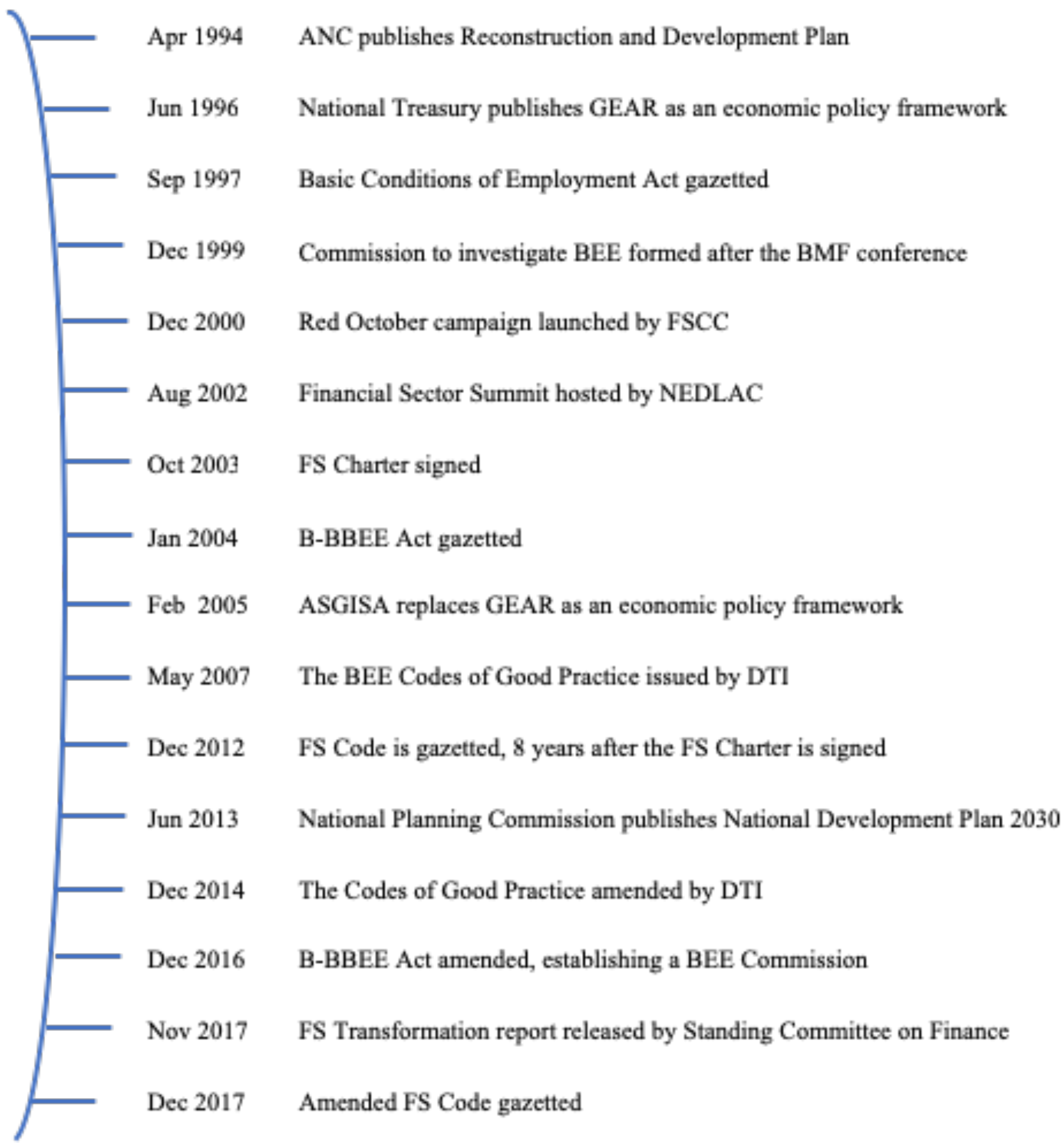

Figure 3. The evolution of Black Economic Empowerment legislation in South Africa

2.2 Early Steps Towards Black Economic Empowerment

The political transition that saw the end of apartheid in South Africa and the first democratic elections held in April 1994 brought to power a government of national unity that was led by the ANC. While political equality now existed for the first time in the country, many aspects of the lives of South Africa's majority black population remained subject to the inequalities bestowed by centuries of colonialism and, latterly, apartheid (Terreblanche, 2002). For example, many laws prohibited the ownership of business by black people[1] and limited promotion beyond a certain grade of employment (Patel & Graham, 2012).

The 1994 election manifesto of the ANC recognised this and declared: "It is not enough to talk of equality. Especially when the vast majority of our people have been left behind by a system that excluded them by law and deprived the country of the contribution they could have made." (African National Congress [ANC], 1994a). The manifesto went on to state: "It means giving all South Africans the opportunity to share in the country`s wealth, to contribute to its development and to improve their own lives." (ANC, 1994a).

The first manifestation of this policy was the Reconstruction and Development Plan ("RDP"), which set out the first democratically elected government's primary socio-economic programme and its (ambitious) intentions to integrate "growth, development, reconstruction and redistribution into a unified programme." To this end, the RDP envisaged a market-based economic system which would, with appropriate guidance from an overarching, developmental state, contribute to the achievement of social transformation objectives and empowering the "historically oppressed". The RDP noted the deep structural imbalances and inequalities that existed in the South African economy and set out to enact a programme of legislative and institutional reform to address this (ANC, 1994b; Patel & Graham, 2012).

The RDP was replaced in 1996 by a macro-economic policy framework called Growth, Employment and Redistribution (GEAR), a strategy intended to stimulate faster economic growth, encourage foreign direct investment into the country and consequently raise additional fiscal resources through a competitive but export-driven economy (Department National Treasury, 1996). Whether these additional resources could even be generated or were intended for enhanced social spending as envisaged by the RDP has been much debated in economic policy circles since (Streak, 2004). Commentators have contended that GEAR was a text book

[1] In South Africa "Black people" is a generic term which includes black Africans, mixed-race or Coloured people and those people of Indian or Asian descent.

document created by a panel of economists that "lost contact with the imperfect reality of and deep-seated inequalities in South Africa" (Terreblanche, 2002).

In spite of the political transfer of power in 1994 and the RDP's stated aims of democratising decision-making in both the public and private sectors of the economy, the ownership, control and management of most businesses remained in white hands in the first five years post the political transition to democracy. Illustrating one aspect of this position, the table below provides the demographic breakdown of top management of across all sectors of the South African economy at the time, versus the economically active population, illustrating just how skewed the position was:

% of Economically Active Population						
	Black African	**Asian**	**Coloured**	**White**	**Female**	**Male**
1998	75%	3%	10%	12%	45%	55%
National Management Profile						
1997	5%	3%	3%	89%	13%	87%
1998	6%	4%	3%	87%	16%	84%
1999	7%	4%	4%	84%	17%	83%

Table 2. Demographic breakdown of management in South Africa
(Black Economic Empowerment Commission [BEECom], 2001; Statistics South Africa, 2019b)

In an attempt to adapt to the new political realities of the day and be seen as more "progressive", some white-owned and controlled business identified a number of well-known black figures with whom to execute share ownership transactions, in which a small portion of the share capital of these companies was (occasionally) donated or (more typically) sold using loan financing to the individual/s concerned. These transactions became known as black economic empowerment ("BEE") deals.

New Africa Investments Limited ("NAIL") and Real Africa Investments Limited ("RAIL") were formed by figureheads of the anti-apartheid struggle such as Dr Nthatho Motlana (physician to former President Nelson Mandela) and Don Ncube respectively. In 1993, the insurer Sanlam disposed of 10% of Metropolitan Life to a black partner company known as Methold which was acquired by NAIL, and through clever financial engineering NAIL could control Metropolitan. These black investment companies acquired a range of minority shareholdings in companies across the media, telecommunications, financial services, healthcare, mining and tourism sectors. Despite the optimism surrounding the formation of such enterprises as pioneers of black capital, neither of these particular businesses survive as independent companies today: NAIL forms part of the Primedia Group of media companies, while RAIL was acquired by PSG Group following its near collapse in the wake of failed derivative transactions in 1999 (Block & Soggot, 1999; "RAD farrago reveals...," 1999).

Perhaps the most egregious example of a BEE deal (from the company's point of view at least) took place in 2001 when Mzi Khumalo acquired a 7% stake in Harmony Gold as its black empowerment partner, and within weeks had sold the shares for an estimated R70 million profit, leaving the company without a black partner. On the other side, Khumalo has been defended by some arguing his actions were the legitimate exercise of his rights over his assets ("Mzi the BEE...," 2006; Theobald, Tambo, Makuwerere, & Anthony, 2015).

Between 1993 and 1998, over 270 separate BEE ownership transactions worth in excess of R50bn were concluded (BEECom, 2001), yet with the crash of global stock markets (including the JSE) in 1998, in the wake of the Russian financial crisis and its debt default (van de Wiel, 2013), many of these transactions collapsed as acquisition funding had to be repaid by the black partner[2], and further deals dried up due to a lack of appetite. The BEE Commission report, noting this, lamented: "The collective approach, suggested in some pre-1994 initiatives, gave way to market driven approaches by individual companies which did not translate into a *meaningful transfer of ownership to the black majority*." (2001).

[2] Falling share prices in the companies concerned triggered debt covenants, forcing the early sale of shares to cover debts. See Annexure 7 for an explanation of a typical BEE share transaction.

Thus the first attempts to transfer shares in private sector companies to direct black hands in the early years of the democratic transition did not always succeed in a meaningful, nor sustainable way. The ad hoc approach adopted by companies to setting up these "deals" reflected an absence of formalised frameworks for such transactions (BEECom, 2001) that echoed the broad-based precepts of the RDP and could be seen as ultimately – as has been argued by some commentators – being merely an attempt to create a new black elite class ("Mzi the BEE...," 2006; Terreblanche, 2002).

In parallel with these early equity ownership deals that were taking place at a shareholder level, the ANC-led government began promulgating a series of laws (see below and Annexure 1) to tackle, in particular, the economic inequalities prevalent in the country. These laws primarily impacted the workplace and echoed the policy intents of the RDP:

- Basic Conditions of Employment Act (Act 75 of 1997)
- Employment Equity Act (Act 55 of 1998)
- Skills Development Act (Act 97 of 1998)
- Preferential Procurement Policy Framework Act (Act 5 of 2000)

(South Africa, 1997, 1998a, 1998b, 2000).

2.3 The BEE Commission

Seemingly frustrated with the slow response by white business to commence what it saw to be a necessary and meaningful process of transformation of the economy, and in response to growing calls from black business formations and groupings such as ABSIP, NBBC and BLA[3], the Black Management Forum ("BMF") conference held in late 1997 resolved to establish a research commission to enable black South Africans to direct, participate in and own a new vision for what BEE should look like, a process that hitherto had been (at least in the view of

[3] Association of Black Securities and Investment Professionals; National Black Business Council; Black Lawyers Association

the delegates at the 1997 BMF conference) managed and directed by the (largely white owned) private sector. Consequently, the BEE Commission was established in May 1998 (Southall, 2004) under the aegis of an umbrella body which represented more than ten black business formations: the Black Business Council ("BBC").

The BEE Commission, under the chairmanship of Cyril Ramaphosa, stated its mandate as follows:

- "to develop a clear and coherent vision and strategy for black economic empowerment;
- to construct a clear and unambiguous definition for black economic empowerment;
- to find a way to integrate the empowerment project into the transformation of South African society." (BEECom, 2001).

The Commission's work saw it conduct public hearings, extensive consideration of documents (including the Constitution and the RDP) and the review of submissions from various entities in the country (including banks, insurers, asset managers, community organisations and black business formations). The Commission's assessment of the South African economy was that it was in "crisis" as a result of the economic policies of the previous (white) government and this had resulted in high levels of unemployment, inequality and "low levels of growth and investment" (BEECom, 2001).

The Commission noted that there was a tendency (a tendency which still persists today, twenty years later) to define BEE narrowly in terms of creating a new black capitalist class (typically through share ownership transactions with individual companies, as described above). It saw this narrow concept as problematic and came up with its own, broader definition, which was stated as follows:

> *It is an integrated and coherent socio-economic process. It is located within the context of the country's national transformation programme, namely the RDP. It is aimed at redressing the imbalances of the past by seeking to substantially and equitably transfer and confer the ownership, management and control of South Africa's financial and economic resources to the majority of its citizens. It seeks to ensure broader and*

meaningful participation in the economy by black people to achieve sustainable development and prosperity.

The final report noted that: "The challenge confronting South Africa therefore dictates a fundamental shift in approach from all sectors of society, government, established business, emerging black business and labour, to commit to contributing towards the goals encapsulated in the RDP." And it made specific mention of the Financial Services sector: "The financial sector should make a commitment to transform its activities and it should explore suggestions to increase the level of investment in areas of national priority." (BEECom, 2001).

An important theme that ran throughout the report was that while BEE should adopt a clear "redistributive" intent over productive assets (echoing the RDP), such policies should not undermine the need to increase economic growth, nor impair productivity improvements in the economy. In other words, the Commission appreciated that the economic "pie" needed to grow in order to be meaningfully shared amongst the citizens of the country.

2.4 NEDLAC Summit 2002

The National Economic Development and Labour Council ("NEDLAC") is a legally constituted body through the National Economic Development and Labour Council Act (Act 35 of 1994), established early in the post-apartheid period in the spirit of the negotiated democratic transition to stimulate ongoing social dialogue. It operates as a collective bargaining chamber between government, labour, organised business and community organisations (South Africa, 1994). Its stated aim is to "seek to cooperate, through problem-solving and negotiation, on economic, labour and development issues and related challenges facing the country". The passage of all labour legislation must, by law, be routed through the body, as must social and economic policy when major changes are being contemplated to these (Kallmann, 2016).

Periodically, NEDLAC arranges summits, events that focus on a particular issue affecting the South African economy and/or society at a particular time. The summits often conclude with a declaration or statement of intent that represents a consensus between the parties for future policy or legislation. For example the October 2018 Jobs Summit brought parties together to explore ways to tackle the persistently high levels of unemployment, and delivered as an output a framework document covering job creation, job retention and economic growth (Hirsch, 2018).

Following from the BEE Commission's report in 2001 and the joint Financial Sector Campaign Coalition[4] / South African Communist Party 2002 Red October campaign targeting the perceived levels of racism in and lack of access to the Financial Services sector by black South Africans (Hamann et al., 2008), the August 2002 Financial Sector summit was convened by NEDLAC to consider *inter alia* the questions of transformation in the Financial Services sector and access to financial services (Kallmann, 2016).

This summit produced a commitment from the industry to produce a black economic empowerment charter for the sector, noting in a closing statement that lingering inequalities in the country "also manifest themselves in the country's financial sector. A positive and proactive response from the sector through the implementation of BEE will further unlock the sector's potential, promote its global competitiveness, and enhance its world class status" whilst seeking to balance this outcome with the need to maintain the "financial stability and soundness" of the country's financial system as a whole (Financial Sector Charter Council, 2003).

2.5 The Financial Sector in South Africa

South Africa possesses a sophisticated Financial Services sector, a sector that is often ranked favourably with first-world countries (Cling, 2001 as cited in Terreblanche, 2002). The primary

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[4] The Financial Sector Campaign Coalition ("FSCC") is a civil society umbrella organisation which acts as a joint "community" voice in addressing the lack of transformation and access to financial products across the sector

sub-sectors it consists of are banking, long-term insurance, short-term insurance, asset management and real estate.

In addition to the century-old JSE and three new ancillary exchanges (ZarX, 4AX and A2X), there is an active bond market that trades corporate, parastatal and government paper (BESA) and a commodity futures exchange that trades agricultural products and derivatives such as grain futures (SAFEX). While there are over 60 companies listed on the JSE's Financial index, the sector is dominated by several large banks and insurers, as set out in the table below:

Sub-sector	Company	Market Cap 31/12/2003	Market Cap 31/12/2018
Insurance - Life	Liberty Holdings	R7bn	R34bn
	Old Mutual	R43bn	R125bn
	Sanlam	R23bn	R178bn
Insurance – Short Term	Discovery	R6bn	R105bn
	Santam	R5bn	R34bn
Banking	ABSA	R27bn	R137bn
	Capitec Bank	R0.4bn	R129bn
	FirstRand	R49bn	R368bn
	Investec	R6bn	R79bn
	Nedbank Group	R17bn	R135bn
	Standard Bank	R53bn	R289bn
Asset Management	Coronation	**R1.4bn**	R14bn
SUBTOTAL		**R238bn**	**R1,572bn**
Rest of Sector		R91bn	R93bn
TOTAL		**R329bn**	**R1,765bn**

Table 3. Market capitalisation[5] of major listed Financial Services companies (IRESS, 2019)

[5] Market capitalisation (or "cap") is the product of a listed company's share price and the number of shares in issue – in essence it is a measure of its market value.

There are also several large and many small unlisted Financial Services companies operating in the sector, which the market capitalisation data shown above does not reflect. For example, banking is typically associated with the "Big 6" of ABSA, Capitec, First National Bank, Investec, Nedbank and Standard Bank, but the South African Reserve Bank ("SARB") lists 19 registered banks, smaller co-operative (4) and mutual (4) banks and 15 local branches of foreign banks (Prudential Authority, 2019).

The sector is heavily regulated, with banks primarily falling under the Prudential Authority of the SARB (Prudential Authority, 2019), while the Financial Services Conduct Authority assumed responsibility for the market conduct of all financial services companies (including banks), in April 2018 under the so-called "Twin Peaks" legislation, known as the Financial Sector Regulation Act (South Africa, 2017b). The country's retail or consumer credit industry is regulated by the National Credit Regulator (a further recommendation of the BEE Commission), following promulgation of the National Credit Act (South Africa, 2005).

2.6 The Financial Sector Charter

As noted in Chapter 1, the Financial Sector Charter is a primary focus of this thesis. Prior to the August 2002 NEDLAC summit, the efforts of the SACP and the FSCC to improve access to financial services for black South Africans were becoming increasingly strident. Marches were organised in Cape Town to various bank branches and in Johannesburg to the offices of the Banking Council (Porteous & Hazelhurst, 2004). The speech made by the industry's representative at the Financial Sector Summit, Derek Cooper, confronted the situation and the declaration emerging from the event (as quoted above in section 4) set the industry on a path towards transformation.

Just prior to this, the Department of Trade and Industry ("DTI") had formed a BEE unit and was intent on developing sector-specific charters (the B-BBEE Act was still in the process of being drafted at that time). It was however, the observation of the early evolution of the Mining

Charter that catalysed the leadership of the Financial Services sector, through its various trade associations, to proactively engage in the development of a Financial Sector Charter.

The development and negotiation of the Mineral and Petroleum Resources Development Act, (South Africa, 2002), took over two years and was characterised by unhappiness from the sector (perhaps unsurprising given the intention of this law was to transition mineral rights to the state) and did not set a good platform for negotiating the Mining Charter. The Mining Charter was – at the time it was adopted – portrayed by the mining industry as a voluntary initiative, with scholars such as Hamman et al (2008) critiquing the apparent "enlightened self-interest" portrayed by the sector. What is evident is that the government, through the then Department of Minerals, began negotiating with the Chamber of Mines in 2002. A draft of the charter was then leaked in July 2002 and the proposal for very high direct ownership targets (51% over ten years) saw a rapid sell off in many listed mining stocks on the JSE, and a further erosion of trust between the negotiating parties. While the end product of this negotiation appeared as a compromise, the acrimonious / mistrustful nature has continued to characterise the relationship between the mining industry and the government.

Perhaps fearing the significant loss of confidence in the banking (and wider financial sector) and a substantial fall in share prices and capital should a similar imposition of high direct ownership targets have taken place, the Financial Services sector led by the Banking Council, sought to negotiate an industry specific charter with black business interests, as represented by the Association of Black Securities and Investment Professionals ("ABSIP"). Government, through the National Treasury (and not DTI) played a custodian and oversight role in the negotiations and did not seek to dictate terms or targets, allowing ABSIP and the trade associations to do this (Tucker, 2010).

One of the key differences in this Charter, as compared to the Mining Charter, was the greater focus given to other aspects of transformation, such as black and black women advancement (employment equity), procurement, skills development, and enterprise development, with comparatively less emphasis on ownership. This was in direct contrast with the Mining Charter with its heavy emphasis on ownership targets.

Then – reflecting the unique position of the sector in the economy as the intermediary between depositors (with surplus cash resources) and borrowers (with cash requirements) – the sector developed an empowerment financing concept: targeted lending directed at black-owned and controlled businesses; and it committed to improve access by introducing low cost, entry-level products and points of presence that were designed specifically for the large number of unbanked South Africans, a primary concern of the FSCC.

The detailed development of the Charter is covered more fully in later chapters of this study, suffice to say the Charter was approved by Cabinet and signed by the parties (half a dozen trade associations and ABSIP; but not government) on 17 October 2003. It was to be another nine years before the Charter was official recognised by the DTI under section 9 of the B-BBEE Act (Department Trade & Industry, 2012), a delay which is also addressed later on in this study.

Notwithstanding this delay, the industry proceeded to implement the Charter, with many Financial Services companies announcing black ownership transactions from 2004 onwards, transactions that were typically designed to reach the 10% direct ownership threshold, as agreed in the Charter, immediately, whist subjecting the black participants or beneficiaries to some extended period of lockup on their shares. During this time the shares would not be able to be sold or encumbered, in order to preserve the ownership value of the deal to the company concerned at a high water mark.

The other aspects or pillars of the Charter were implemented on a more gradual basis: switching business to black-owned suppliers (procurement) and promoting black employees to junior, middle and senior management (employment equity) were by definition slower processes to effect in a meaningful manner.

Lastly, the Charter contained provisions for the annual reporting of progress against the agreed targets for each pillar in the form of scorecards, to a new, multi-stakeholder, NEDLAC-styled body, the Financial Sector Charter Council ("the Council") (Financial Sector Charter Council, 2003; Tucker, 2010).

2.7 The B-BBEE Act and Related Legislation

The report of the BEE Commission suggested that “All business people should therefore find ways of subordinating short terms gains to the national growth agenda” and look to support an acceptance and operationalisation of BEE in business (BEECom, 2001). The report proposed that as part of a national BEE strategy, new legislation be developed that would create the necessary institutional and other support measures to, notwithstanding the voluntary emphasis of the opening quotation, drive the implementation of BEE across the economy.

The result of this recommendation was the promulgation of the Broad-Based Black Economic Empowerment Act (“B-BBEE Act”) which was signed into law in January 2004. The mandate for the administration of this Act fell to the DTI and the legislation contains many of the principal recommendations of the BEE Commission’s final report: for example the means of recognition for sector codes which had been developed prior to, or in parallel, with the B-BBEE Act (South Africa, 2004).

The Act is a comparatively short piece of legislation that lacked a comprehensive framework missing in the formation of early, narrowly focussed (pre-1998) BEE deals, and the DTI therefore followed this with a set of “clarifications” or expectations known as the Codes of Good Practice (“CoGP”), issued in 2007. These CoGP created the framework for a much broader approach to empowerment (hence B-BBEE instead of BEE) and dealt with the issues of measurement of “generic” transformation, the various pillars or elements with targets for companies to achieve, as well as the reporting of “scorecards” for each of these pillars (South Africa, 2007). Much of this important operational detail was derived from the Financial Sector Charter document produced in 2003 (see Annexure 2 for the pillar structure of the Generic and Financial Sector Charter and Codes).

Whether to comply with the B-BBEE Act is a voluntary decision for companies and there are various exemptions for qualifying small and micro-sized enterprises. Yet adopting the Act has practically become a de facto requirement for many businesses, because of competition via the supply chain: procurement processes now are likely to contain a points system that considers a bidder's B-BBEE score, in addition to pricing and technical capabilities. This occurs in both public and private sector procurement, where the B-BBEE weighting can range from 10% to 30%. Selecting a supplier that has a low, or no, B-BBEE score can place downward pressure on the company's own score. Competition between companies for new business has thus indirectly encouraged "voluntary" compliance with the Act, legitimately and at times illegitimately through practices termed fronting (see following paragraph).

The B-BBEE Act underwent a significant revision in 2013 to establish and mandate the office of the BEE Commissioner, a new, dedicated body designed to report on the overall effectiveness of companies' implementation of the Act (South Africa, 2014) and investigate instances of fronting, a practice where the B-BBEE credentials of a company are fictitiously enhanced with the aim of achieving a higher scorecard rating and a more competitive position for government and corporate tenders.

In the context of this study, the Financial Sector Charter was only formally recognised as a sector code in 2012; in this process the original "Charter" name was dropped and replaced with the word "Code" as per the Act, with further alignments gazetted in 2017 (South Africa, 2017a).

2.8 Subsequent Developments

The establishment of the Council and its secretariat adhered to the NEDLAC principle of equal representation and thus brought together a number of role players excluded from the front line of the Charter negotiations, such as community groups and organised labour. Some of these had been at the forefront of the pressure campaign described above, such as the SACP (representing "communities") and now had the opportunity to interact with the trade associations representing financial services companies, ABSIP and the government to monitor and report (to Parliament and in publication form) on the industry's transformation progress.

The reporting of progress against the Charter targets by Financial Services companies to the Council and in their own public annual reports was designed to encourage transparency and enable a review after five years of the validity of the initial targets and whether those should be recalibrated (the efficacy of the Council is explored in Chapter 5).

Related to this reporting, an entirely new segment of the audit industry has arisen and developed as a consequence of the B-BBEE. B-BBEE "verification" is now the term used to describe the independent review of a company's transformation scorecard each year. Much like the traditional financial audit, a firm conducting B-BBEE audits is required to be accredited and the review must adhere to recognised audit standards for such engagements. The report on the company's scorecard is then issued as a certificate by the verification agency (SANAS, 2019).

Various annual research reports are published in relation to the issue of black economic empowerment. Transformation of the local asset management industry is the focus of an annual report by 27Four Asset Management called *BEE.conomics* (2018), while another looks at South Africa's *Most Empowered Companies* (Anthony, 2018).

Lastly, in 2016 the South African Parliament's Standing Committee on Finance ("SCOF") announced that it was to review the transformation progress of the Financial Services industry. The SCOF published its wide-ranging report in November 2017 (Carrim, 2017). The report noted how the industry had set out to show that significant progress had been made, while other submissions suggested very little had in fact been achieved (the FSCC being one such voice). This tension sits at the heart of this study and will be explored later in this thesis.

2.9 Conclusion

What is clear from this chapter's review of the BEE landscape in South Africa is the depth and complexity to which the concept of economic transformation has woven itself into the fabric of South African business over the past twenty-four years. From the policy ideas of the 1994 elections, deep concerns with the nature of prehensile empowerment "deals" through to the work of the BEE Commission, some of whose recommendations manifested themselves in legislation that has now become embedded in the formal business sector, it is clear that the early, ad hoc approach to transformation has now become highly formalised.

Against this backdrop, the Financial Services sector – regarded as a key component to the economy – sought to chart its own path ahead of the emerging BEE legislation. What prompted the sector to pursue that path and whether the subsequent implementation of its uniquely crafted approach to transformation has been successful will be the subject of Chapters 5 and 6.

3 Literature Review

3.1 Introduction

This chapter aims to explore recent academic literature concerning the role of business in societies that are confronting significant social challenges, in order to situate the research question as described and explained in Chapter 1 within the broader academic discourse, and to establish the gaps in existing literature which this thesis can contribute to through its findings.

Scholars in various fields have published papers concerning a number of topics related to this research question, with the role of business in relation to social challenges central to the literature reviewed here, yet as noted this role is contested both in academia and practice. The topics that are covered are: grand challenges and business responses to them, both through adaptations to business models and through partnering; corporate social responsibility and efforts to create positive social change; and ambidexterity: businesses operating in a near-constant state of balance between economic and social outcomes, as well as internal and external drivers of change. Shifting to the South African context, and building off the context established in Chapter 2, the chapter explores local and international research on B-BBEE as a legislated form of affirmative action (or economic transformation as it is popularly described in South Africa) to address the inequalities prevailing in the country. Leading towards the praxis aspect of this thesis, the chapter then turns to an examination of literature on Sovereign Wealth Funds: their nature and purpose in general and specifically in relation to addressing societal challenges through a derivative known as Sovereign Development Funds.

3.2 The Role of Business as a Social Development Partner

The United Nation's ("UN") Millennium Development Goals ("MDGs") were published in 2000 in response to a broad concern with the state of development in many countries and the growing inequalities between developed and developing nations (Moniruzzaman, 2015). The preface to the MDGs sets out an ambitious goal: "to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty" (United Nations, 2001). Hence the MDGs sought to chart a developmental course, across eight dimensions for a 15-year period. These dimensions covered "eradicating extreme poverty and hunger; achieving universal primary education; promoting gender equality" (Brandt, 2014), environmental sustainability and various health-related aspects. The significance of the eight goals was articulated by Moniruzzaman as being "global concerns due to their global impact" (2015).

Whilst the United Nations ("UN") noted there had been successes and progress with the MDGs, it also acknowledged that more needed to be done (Xie, 2015). Under the banner of a "bold new vision for sustainable development", the UN launched the Sustainable Development Goals ("SDGs"), which covered an expanded set of 15 dimensions (United Nations, 2015). Some commentators have noted with cynicism that the UN realised its targets for the MDGs were not being (nor were going to be) met (Moniruzzaman, 2015) and the "rebranding" to the SDGs was merely an opportunity to recalibrate the targets under different headings (Briant Carant, 2017). Others have noted that real reductions in poverty and hunger (of the kind sought by the MDGs and SDGs) were not likely to occur unless "business as usual" approaches to economic and trade practices are changed (Hickel, 2016), and that the underlying discourse inherent in both documents favoured "power-laden hegemonic frameworks" at the expense of the truly marginalised voices in society (Briant Carant, 2017)

3.2.1 Introducing Grand Challenges

Yet in reflecting on the genesis of both the MDGs and the successor SDGs, it is evident that an appreciation existed that many countries face deep-rooted, systemic and structural barriers that limit their development potential (Xie, 2015). The UN sought to address these through targets linked to each pillar and through its concept of a global partnership for development (Goal 8 of the MDGs, and Target 17 of the SDGs) (United Nations, 2001, 2015). In academic literature, such social problems have various names, one common one being "grand challenges". Grand challenges "affect vast numbers of individuals in often profound ways" (Eisenhardt, Graebner, & Sonenshein, 2016), possess a seemingly intractable nature and are beyond the ability of a single organisation to meaningfully address (Ferraro et al., 2015).

Further characteristics of grand challenges are their inherent complexity; uncertainty; the need for approaches that are cross-disciplinary; and the revelation of new issues as old issues are progressively tackled (Eisenhardt et al., 2016; Ferraro et al., 2015). A similar term that is used by other management scholars is "wicked problems": societal problems that are "defined by their circular causality, persistence, absence of well-structured alternative solutions, relative lack of room for trial and error learning" (Dorado & Ventresca, 2013, quoting Rayner, 2006). Consequently, political action may often be required to solve aspects of such wicked problems (Martí, 2018), as was evidenced by the political intervention of the UN in establishing the MDGs.

Another aspect of grand challenges is that they are potentially soluble, a feature that bears particular relevance to this research thesis with its emphasis on praxis. As Eisenhardt et al (2016) note: "addressing grand challenges presents extensive theoretical opportunities to reveal new concepts, relationships, and logics of organising while also advancing social progress."

Examples of grand challenges range from climate change and labour exploitation, to disease eradication and poverty reduction, with many studies examining the organisational responses to these (Ferraro et al., 2015) typically from the lens of traditional business.

3.2.2 Business Models and Social Development Challenges

The historical basis under which grand challenges have been addressed in academic literature is as an offshoot of institutional theory, specifically the domain of organisational change (Ferraro et al., 2015). Ferraro et al note that it is at the intersection of "conflicting fields and logics" that the possibility of change (i.e. solutions) arises (2015). Increasingly however, scholars have sought to explain the distributed and collaborative nature of the many novel responses to grand challenges (DiMaggio, 1988; Padgett & Powell, 2012) that go beyond the explanations of traditional institutional theory, in other words theory that considers a single firm acting alone. In seeking to expand this theoretical basis, Ferraro et al look to the American pragmatist tradition and the concept of robust action as a means to provide a more comprehensive response to the manner in which significant social challenges may be tackled.

They suggest a three-pronged approach for implementing robust action to address a particular grand challenge (2015):

Step	Description
1. Establishing a participatory architecture	The interaction of multiple diverse actors over time
2. Using multivocal inscription	Sustaining various interpretations of an issue amongst different audiences through discussion and action
3. Adopting distributed experimentation	Evolutionary learning from the successful and unsuccessful efforts of others

Table 4. Three dimensions to addressing grand challenges

Their approach argues that the inherent complexity of large organisations with their multiple institutional logics, is (counterfactually) well suited to engaging in grand challenges, factors that carry particular relevance for this thesis. As the authors note, the "ability to manage and navigate institutional complexity is perhaps a necessary organizational competency for engagement in grand challenges" (Ferraro et al., 2015), in a way that emphasises inclusiveness and prolonged engagement (Berrone, Gelabert, Massa-Saluzzo, & Rousseau, 2016, citing Ostrom (1990)).

The approach advocated by these authors (per Table 4) offers a promising method of evaluating the development and implementation of the Financial Sector Charter in the years from 2003 to 2018; this evaluation will follow in Chapter 6.

Whether business has a role to play in societal development is a question explored by Hamman (2006), while Martí argues that business models are transformative, but not always in the manner initially intended or designed. Martí's work describes how business models are typically designed (aside from an assumed positive economic impact) to have positive (or at least neutral) intentions with respect to their societal impact; yet the implementation of such models may result over time in negative or even exclusionary consequences for many in society (2018).

In a country such as South Africa, with its long history of discrimination and exclusion, including the economic exclusion of the black population by the dominant white population, this position would appear to be true: Terreblanche (2002) argues exactly this in his analysis of the historical and contemporary economic paradigms of the country during its colonial and apartheid history. And, as was noted in Chapter 2, it was precisely this exclusion from the economy by black South Africans and the slow pace of change by business post-1994 that drove the ANC government's BEE agenda, targeting the predominantly white business community (Southall, 2007). It was racial discrimination by banks and a lack of access to financial services products more broadly that drove the FSCC and the SACP to campaign for the Financial Sector Summit of 2002 (Hamann et al., 2008; Patel & Graham, 2012).

In attempting to suggest how alternative, improved or "transformational" business models may be developed by companies, Martí builds on two parts of the three-pronged approach of Ferraro et al (2015) as described above in Table 4 (namely the participatory architecture and using multivocal inscription aspects), adds the concept of "scaffolding" (or building an "adaptive structure" between the organisation and its social environment, per Mair and Seelos (2016)) and then includes a fourth element – "proximity" – to bring in an ethical or caring dimension to the process of business model creation. Martí's invitation to researchers to explore the unintended consequences of "purposefully designed business models" is particularly attractive to this researcher in assessing whether the Financial Sector Charter provided an opportunity for "transformative" business models to be developed by the sector.

3.2.3 Cross Sector Social Partnerships

The concept of partnership – or collective effort to address a particular social issue – is what sat at the heart of the UN's MDG initiative, specifically involving business through Goal 8: "a global partnership for development" (United Nations, 2015; Hamann, 2006). Building from this introduction to partnerships as a means to achieve a broader societal end, Selsky and Parker (2005) examine the nature of what they term "cross-sector partnerships [that] address social issues (CSSPs)". In their research paper they cite the definition of Waddock (1991) which encapsulates a key aspect of this study:

> *"the voluntary collaborative efforts of actors from organizations in two or more economic sectors in a forum in which they cooperatively attempt to solve a problem or issue of mutual concern that is in some way identified with a public policy agenda item."*

One particular "arena" of CSSPs that Selksy and Parker describe involves government, business and non-profit organisations working together to "address real-world challenges that naturally cut across organizational and sectoral boundaries." Echoing this position Hamann notes there is often a requirement in the modern business environment for "collaboration with other stakeholders, including the state and civil society organisations" (2006).

Taking the partnership concept further, Mair and Hehenberger (2014) explore front stage (public) and back-stage (private) convening between non-governmental organisations. Of relevance to this study is these authors' insight into collective rationalisation processes – processes where entities move beyond their own narrow interests and begin to coalesce around a common idea or concept. This allows for joint discovery and progressively deeper interactions between participants, resulting in more mutually beneficial relationships arising with better outcomes (confirming the idea of cogenerating value, as noted above). The authors note that there are often inherent conflicts between the positions and views of the parties at the start of such processes, whom they note are likely to be pursing "divergent models". Yet they observe a process of transition from this conflict to a level of understanding and cooperation over time.

Collective rationalisation and collaborative efforts appear at first to be counterintuitive concepts, especially for businesses. In a highly competitive and often regulated business landscape, the willingness (and indeed ability) of companies and other social partners to engage in such a manner to "collectively rationalise" around issues germane to solving major social challenges is indeed paradoxical (Eisenhardt et al., 2016). Yet the idea of working to generate social value together (Austin, Stevenson, & Wei-Skillern, 2006) as a catalytic alliance

(Waddock & Post, 1995; Zahra, Gedajlovic, Neubaum, & Shulman, 2009) is attractive: at one level of companies that may be day-to-day competitors working together to develop an operating or regulatory framework or business model (per Martí, 2018) explicitly geared towards a larger social aim; and at a second level of ideologically different parties (companies, government and civil society organisations) doing the same – "collaborating collectively" (Bitzer & Hamann, 2015) – to achieve the broader aim of social innovation (Mulgan, 2006).

In conclusion, it is evident for example from the work of Selsky and Parker (2005) on CSSPs that there is clearly an opportunity for business to play a role in solving some of society's most pressing challenges. But *should* business play this role at all, and if so, how far should its role extend? And what might be the unintended consequence of its involvement (per Martí, 2018)? These questions on corporate citizenship have been debated extensively in academic literature (Palazzo & Scherer, 2008) and are addressed in the next section.

3.2.4 Corporate Social Responsibility and Positive Social Change

The role of business in society has been widely documented in academic publications over many years. Corporate Social Responsibility ("CSR") is a term that covers a particular aspect of this role, even though the definitions and contexts of its use do vary. Indeed there are seemingly as many arguments in favour of CSR as there are against (Carroll & Shabana, 2010).

Echoing Carroll and Shabana's point about the relevance of CSR to the corporate bottom line, Bitzer and Hamman (2015) note that business's role in social innovation carries with it a high degree of "business relevance". They argue that – particularly in countries with high development needs such as those on the African continent – the role of business in developing innovative solutions to those problems is all the more relevant. In this context they examine the term "entrepreneurship" quite widely as they explore how such social innovations arise, from the individual entrepreneur (whether locally situated or globally famous) to internally driven entrepreneurship within larger, established business (what Austin et al. (2006) term "intrapreneurship", as noted in the previous section) and lastly to business collaborations or partnerships (Mair & Hehenberger, 2014).

Similarly, Porter and Kramer's (2011) work on creating shared value for business and society seeks to extend the traditional view of corporate social responsibility by connecting or aligning the investments of companies in the communities where they operate, arguing that greater economic value will be derived from the resultant social value created. While much of the focus of their work was on value chains in (for-profit) companies, they argue that the concept can also be used in government and the non-profit sector to develop partnerships. While Porter and Kramer do have their critics (such as the critique offered by Crane et al (2014)) their work highlights that (at the time of their writing at least) the level of strategic alignment required between such actors to form an effective (i.e. value enhancing) outcome was often missing. This point was argued by Hidden, where she reflected on the strategic disconnect between funders (typically corporates) and NGOs in South Africa (2017). As Hidden notes, "[in] failing to do so they [corporates] fail at the opportunity to benefit society, increase innovation and gain a competitive advantage".

In further examining the role of business, in their 2016 review paper Stephan, Patterson, Kelly and Mair acknowledge the role of "market-based organisations" that can develop solutions to grand challenges and in so doing create what they term positive social change ("PSC") i.e. the advancement of societal well-being. In an interesting departure from traditionally separate research lines into "inward looking" (or company-specific) CSR, social entrepreneurship and "base of the pyramid", these authors chose to examine the interplay between these three fields, arguing there is a research opportunity to examine the "external effects stimulating societal well-being beyond organizational boundaries". The scope of their review work, which covered vast swathes of literature (in excess of 10,000 sources filtered to 118 examples), covered PSC via profit and non-profit organisations (acting separately) and also organisations acting collectively through an alliance (linking to Zahra et al's (2009) concept of catalytic alliances) .

Aside from identifying factors of motivation and capability in organisations to pursue PSC, Stephan et al note that firms are able to more effectively utilise the opportunity to deepen their social capital when they are perceived by their partners and stakeholders to be legitimate (2016) in their efforts (Lee, 2008; Palazzo & Scherer, 2008). This concept of legitimacy is of high importance when examining the role of business in South African society, particularly traditionally "white" owned and managed business and its attempts to reposition itself post 1994 (Hamann, 2006; Terreblanche, 2002).

The question that arises is whether for-profit business should voluntarily engage in non-core or socially-directed activities? Carroll and Shabana (2010) set forth the "arguments or rationales supporting or documenting why the business community should accept and advance … CSR". Yet they do acknowledge, in reflecting on fifty years of literature on the subject from the development of CSR through the 1960s and 1970s and since, both in practice and academic analysis, that the concept has drawn well-reasoned and strongly opposing views. What is clear though from their work is that the emergence of CSR in developed countries took place against a backdrop of significant change in those social environments at that time, which resulted (rightly or wrongly) in pressure on business to "adopt CSR perspectives, attitudes, practices and policies" (2010).

Considering this pressure, and focussing on the "responsibilities" of business, the authors note that such responsibilities may be distinguished as follows:

- Required responsibilities – economic and legal actions;
- Expected responsibilities – ethical actions; and
- Desired responsibilities – discretionary or philanthropic actions.

In this way these authors exposed a much broader, more encompassing set of dimensions of business responsibility than one typically associates with CSR, where the latter category is often assumed (Carroll & Shabana, 2010).

While it may be possible from a Global North or developed country perspective to rationalise the pros and cons of the involvement by business in CSR and PSC efforts in the communities where they operate, it is evident from the literature that even in the face of public pressure, businesses operating in these economies nonetheless have a choice with respect to the extent of their CSR efforts.

In the Global South (for example, in a middle-income country like South Africa) where the legitimacy of established business is politically questioned and regarded with suspicion by governments who perceive business and markets to have too much power (Davis, 1973), government intervention through laws and regulations has in many respects overridden the voluntary opportunity typically afforded business elsewhere and demanded a more active level of social participation through more of the "required" responsibilities described above. De Schutter (2008) for example argues for an "affirmatively created regulatory framework for CSR" .

To summarise the review on CSR and PSC literature, there is clearly an opportunity for business to bring its entrepreneurial creativity and agility, managerial and financial capabilities to bear in addressing the challenges that prevail in the communities where they operate. While companies operating in developed economies may have the luxury of choosing whether to enhance their social capital through proactive or discretionary participation in social endeavours, this choice may not be afforded companies operating in countries where governments, adopting a more interventionist role, have enacted regulatory instruments to compel business to pursue positive social change outcomes through the core of their operations and activities. This latter aspect is an area less explored by researchers to date and offers a further motivation for this exploratory thesis.

3.2.5 Ambidexterity: balancing economic and social outcomes

What is evident from the preceding discussion on CSR and PSC literature is that companies in high income, middle income and developing countries are in ever-demanding positions of having to balance the economic performance expectations (for example shareholders' expectations of financial returns) with the social-outcome expectations of a range of other stakeholders (including employees, customers, civic associations and governments). And regarding governments, these may be overtly interventionist (e.g. in the social democratic states of western Europe, or the South African example of B-BBEE law (Terreblanche, 2002)) or more market orientated (as in the USA). Scholars attribute the term "ambidexterity" to organisations attempting to achieve a semblance of balance in this regard. Hahn and Figge

(2015) describe this state as the “ability to perform differing and often competing, strategic acts at the same time”, building off the earlier definition of Simsek, Heavey, Veiga, & Souder (2009).

Further to this idea of competing corporate objectives, the work of Alt and Craig (2016) examines firstly the intersection of strategic issues with social issues, noting that the latter may by virtue of its nature become elevated (to strategic) or it may be adopted as a result of an internal selling process. Such adoption may not be easy, particularly given the potential cost and what Howard-Grenville (2007) states as “the idea that what constitutes a problem for society may not necessarily represent a problem for an organization”, at least not at that point in time.

Accordingly, Alt and Craig explore the values within an organisation and its operating context, in an attempt to further explore why an organisation may, or may not, agree to adopt a social cause or issue that is proposed by an insider or “change agent”, such as an employee. In so doing the authors identity both the perceived legitimacy of the initiative and the concept of “logics” (“elements of idiosyncratic internal cultures” – these being either commercial or social welfare logics) and how these typically contrast or even compete with one another. It is these logics, they argue, that are typically more influential than values, when evaluating a social development proposal that, as stated above, may “not necessarily be linked with the objectives of a for-profit organization” (2016).

An unusual exposition of how an organisation can manage this external versus internal tension is offered by Hahn and Figge (2015). They aim to contribute to the debate on organisational ambidexterity by examining corporate social performance (CSP) resulting from a business’s activities, a concept defined by Wood (2010) as the positive and negative “impact and outcomes for society, stakeholders and the firm” (see also Margolis & Walsh, 2003).

Departing from previously articulated debates on whether and how CSP actually enhances financial performance (Carroll, 1999), the authors delve into the often competing and fundamentally different rationales of morally-driven versus instrumentally-driven (i.e. profit-driven) initiatives that firms undertake. Referencing existing ambidexterity literature, which notes that "both instrumental and moral rationales offer [differing] explanation[s] of why, and under which conditions, firms address social problems", their paper looks at the tension (even contradiction) between social and economic performance. It emphasises that high levels of CSP may in fact be explained when firms are able to combine these tensions positively to achieve a more beneficial outcome in the pursuit of solutions to a societal issue. In other words, in such a situation the magnitude of the firm's response to the social challenge is amplified, resulting in higher level of CSP. Interestingly, the authors note that this kind of complementary outcome can be achieved either by an instrumental initiative supplementing a moral initiative, or *visa versa*.

Probing this tension and the underlying processes underway inside organisations experiencing it, Cajaiba-Santana (2014) tries to bring together two traditional views of research into the process of social innovation: firstly, that social innovation is an institutional and thus agent-driven process (actions undertaken by specific, internal individuals); secondly, where social innovation is driven by the external or structural context. The author suggests "social innovation [may also be] created as a transformative force through the inter relationship between agents, institutional structures, and social systems", quoting Hargrave & Van De Ven, (2006); allowing these processes (the external and the internal) to co-evolve interactively to produce new forms of social innovation (2014). This contrasts Mulgan's (2006) articulation of a single process view.

Dorado and Ventresca (2013) explore the conditions that have facilitated the interplay between such actors and broader, institutional contexts. These conditions are, they argue, an important determination of whether "entrepreneurial engagement" can take place as a means to develop (even clumsy) solutions or social innovations. In this case the word "entrepreneurial" is taken in its broad, creative sense: "the simultaneous unbuilding and rebuilding of constellations of value-creating activities" that give rise to system-level change (2013).

Given the inherent paradox between these tensions (Eisenhardt et al., 2016) and that traditional for-profit organisations are assumed to avoid such tensions by prizing economic performance more highly, these theories are examples of a counterfactual alternative (Dacin et al., 2011) to traditional views of organisational decision-making and a changing awareness of the role of business of society.

Whether the South African Financial Services companies, through their lived experience of developing, implementing and embedding the Financial Sector Charter over a period of 15 years, have been able to adopt an “ambidextrous” outlook, harness this tension between their instrumental and moral initiatives, and achieve a degree of positive social change in the country, as suggested by Hahn and Figge (2015) and Margolis and Walsh (2003), is a question that will be explored in Chapter 6.

3.3 Broad-Based Black Economic Empowerment in South Africa

As was set out in Chapter 2 of this thesis, the concept of B-BBEE in South Africa has changed from a loosely defined political issue in the mid-1990s to a highly regulated, widely implemented and topical pillar of economic policy. Similarly, the volume of academic literature on the subject has grown, particularly since the early 2000s following the promulgation of the B-BBEE Act and the increase in share ownership transactions which have provided opportunity for academic research and analysis. It is unsurprising then that B-BBEE[6] forms a key narrative component of this thesis.

What follows in this section is an analysis of the research covering socio-political perspectives on government, industry and corporate-level action in relation to B-BBEE as well as some of the quantitative research conducted by scholars in this domain.

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[6] As noted in Chapter 2, the term BEE represents application of or reference to the early, typically “narrow” forms of economic transformation in South Africa, while the report of the BEE Commission in 2001 and subsequent legislation formalized a wider, “broad-based” concept; hence the term “B-BBEE” being subsequently adopted instead of “BEE”. Nevertheless some authors quoted may use the terms interchangeably.

Some of the early writing on BEE adopted, as a consequence of its timing a few years into the post-democratic South Africa, a strong socio-political outlook: Terreblanche (2002) for example writes extensively on the patterns of wealth accumulation in South Africa over more than three centuries of colonialism and apartheid, including the transitional period following the first democratic elections held in 1994. He notes optimistically the promise of the B-BBEE Act to change the entrenched paradigms of economic inequality inherited from three centuries of racial discrimination in the country. Southall (2007) seeks to place the concept of black economic empowerment within the context of the ruling ANC party's own political journey, from a liberation movement with strong socialist roots (through its alliance with the SACP and prominent labour federations) to its assumption of power in 1994 (a few years after the fall of Soviet communism) and having to contend with an economy largely owned and controlled by deeply established business interests (which mostly represented white South Africans). For example, in 1996 three quarters of the population was black African, yet this group received one third of personal income (Dimat, Lebone, & MacFarlane, 2007; Terreblanche, 2002).

Yet as shown in the preceding chapter, it took close to a decade before the ANC began to assert its political power to address this political vs economic power imbalance. Like Terreblanche, Southall is optimistic about the positive benefits of B-BBEE to yield a more inclusive economy, yet he argues that despite the creation of a black elite and middle class, more attention should be devoted to the lower economic strata of society (2004, 2007). Through further analysis, Tangri and Southall (2008) unearth the paradox of a developmental state with a strong redistributive political mandate having to operate in a modern, open economy that relies on foreign capital inflows to fund its budget deficits; they note: "the government has had competing goals of growth and redistribution, which it has sought to reconcile while implementing BEE."

Taking this further Southall (2007) notes that "textbook separations of economics from politics do not reflect the realities of modern corporate capitalism", particularly in South Africa, where the government has in fact formed a close nexus with the emerging black business class (directing state resources towards it through for example the Preferential Procurement Act described in Chapter 2). This "corporate leaning" has even gone so far as the ruling ANC party and its labour affiliates setting up investment companies to benefit directly from state-owned entity procurement, with often controversial outcomes[7]. This pattern of behaviour has perhaps arisen from a belief that it is a "socially just and politically necessary way of correcting past racial imbalances", while going sometimes beyond the boundaries of legality (Southall, 2007).

What then is the relationship between B-BBEE and CSR as described in the previous section? As Hamann et al (2008) note "there is still some confusion about the relationship between BEE and CSR. The state-driven motives for BEE are often much more direct and powerful than [traditional] CSR drivers and they do not neatly coalesce." It is evident that the voluntary and philanthropic lens of CSR familiar to many foreign companies and observers is far removed from the extent to which CSR has evolved in South Africa to its present day, legislated form.

While there are several dimensions for companies to address under BEE legislation, as was evident from Chapter 2, there is a (perhaps inevitable) focus on changing company share ownership to be more representative of the country's demographic profile – in policy documents, in legislation, and in the press. Several studies have therefore been conducted on such ownership transactions. Some of this literature has looked at share ownership transactions through the lens of CSR; in other words, taking these as voluntary efforts at enhancing CSP (per Hahn & Figge, 2015). Given the development of multi-faceted legislation as described in Chapter 2 and the competitive forces at play, particularly with respect to securing supply chain contracts (where a high B-BBEE "score" would be a competitive advantage), one might well argue that the voluntary or CSR lens, in the sense traditionally understood and applied in developed economies, is misplaced. In fact, as was shown through the examples in Chapter 2, it could be argued that these 1990s era share ownership transactions were undertaken by the

[7] The ANC's investment company Chancellor House owned a minority stake in the company Hitachi Power South Africa, which was awarded a multi-million Rand contract to supply and install boilers at the new Medupi power station on behalf of the state-owned power utility ESKOM, a project dogged by extensive time and cost overruns. (Hunter, 2015). In a similar vein, in 2018 the Public Investment Corporation which administers the pension assets of the country's state employees and is the sixth largest asset manager in the world, bought a stake in the newly JSE listed Ayo Technologies at a significantly overvalued price. In early 2019 the PIC was ordered to recoup its investment in full for not following due process and for breaches of the Companies Act. The ANC-aligned labour union FEDUSA held a stake in Ayo prior to the listing and its general secretary was a non-executive director of the company (Magubane, 2019).

companies concerned with a decidedly political motive (Terreblanche, 2002), as a way to achieve a level of societal legitimacy in the face of a new political reality (Palazzo & Scherer, 2008).

Whereas more recent (post 2004) B-BBEE ownership transactions may have retained a degree of social or philanthropic intent as evidenced by the more diverse range of beneficiaries attached to them (Patel & Graham, 2012), many such transactions have been entered into to achieve a level of compliance and scorecard points for the company concerned (Hidden, 2017; Miller, 2012).

Nonetheless, Allesandri et al (2011) and Miller (2012) undertook quantitative, event-based follow up studies to consider whether the pursuit of a B-BBEE ownership transactions created economic value for shareholders or not. Both studies had similar conclusions (though over different timeframes), noting the market (the JSE) has tended to reward companies that have engaged in broad-based schemes and given such firms a more positive performance outlook, than for example with more traditional employee share ownership schemes.

An in-depth examination of more than 1000 B-BBEE transactions was conducted by Patel and Graham using transaction data sourced primarily from a database compiled by BusinessMap. They note the structure of ownership transactions had started to change, possibly in relation to the adverse publicity associated with "narrow BEE", towards a broader base of beneficiaries that included employees, specific communities and in some cases even the general public (2012). In 2015 research group Intellidex produced a report that considered the value created by the top 100 JSE listed company deals, as at 31 December 2014, the date at which many B-BBEE-driven share ownership transactions passed their ten-year lock in period[8]. Intellidex noted the sum of pre-tax value had been created in black beneficiary hands to be in excess of R317bn, with the financial sector alone contributing R57bn of pre-tax value. To place these

[8] As a consequence of the Harmony Gold experience in 1997, many share ownership transactions undertaken by companies required participants (i.e. new black shareholders) to be tied into the deal for a minimum period (for example 10 years) to preserve the level of black shareholding over that period.

figures into context, the amount of corporate income tax paid by South African companies in 2014 was R180bn (Theobald et al., 2015).

Other authors have widened the scope of their enquiries into the South African B-BBEE environment and challenged this altruistic, apparently voluntary motive of companies to give away or sell a modest portion of equity and participate in the formation of industry-specific empowerment charters. Hamann et al (2008) observed that – in the examples of the South African mining and Financial Services sectors – the dominant narrative emerging from business on the conclusion of the charter negotiations in the early 2000s was that charter participation was driven by "enlightened self-interest" with respect to the social transformation of the country. Yet Hamann et al argue that business has used its power dominance to take advantage of a (then) emerging model of collaborative governance favoured by the ANC to steer these "interest-based" charter negotiations in a manner that created more lenient outcomes for themselves than some elements of society were demanding; and that far from volunteering participation in the negotiating process, pressure from community and other stakeholders was what really drove participation, not a sudden onset of corporate altruism.

Several other studies have looked at the development and early implementation of the Financial Sector Charter itself. Tomlinson (2005) looked at the R42 billion of housing delivery commitments made by the sector under the Charter pillar of Access to Finance. While Moyo and Rohan (2006) sought to balance both the innovative nature of the Charter's development and its attempts to redress previously discriminatory aspects of the business models used by Financial Services companies, with a caution on whether, given the heightened expectations of especially poor communities, the charter model would be able to generate and sustain momentum to sufficiently transform the sector without the need for further, more pervasive regulation by government.

The question that arises from both the quantitative and qualitative studies of various aspects of B-BBEE is whether corporate participation in B-BBEE is driven by a genuinely held belief in a company doing social good (akin to Young's concept of moral capitalism (2014)); a desire to merely seek compliance in the face of external factors; the potential to secure additional economic returns by adopting or embracing B-BBEE; or a combination of these factors.

The answer to this question lies in the perspectives of the key Charter role players themselves, which is less explored in the literature on B-BBEE, both local and international. Hamann et al conducted extensive research into the Mining Charter and the impressions of mining company executives and affected communities (Hamann, 2019; Hamann et al., 2008). But from a Financial Services perspective, this level of exploration has yet to emerge: research that looks not only at business perspectives but importantly the perspectives of government, black business interests and black communities, into what drove the formation of the Financial Sector Charter and how its implementation since 2003 has unfolded over the intervening 15 years.

For government, was it a deliberate (and delicate) balancing act that sought to preserve the stability of the financial sector, maintaining a conducive environment for (particularly foreign) investment whilst using the funding lever of a slowly transforming financial sector to fund the transformation of the rest of the economy, thereby addressing the pervasive poverty and inequality in the country (Hamann et al., 2008)? For business, was it a desire to avoid more strident regulation, the potential to secure additional economic returns under a new business model (per Cajaiba-Santana, 2014) or a combination of these factors. And what were the motives of emerging black business interests, labour and community constituencies?

Understanding this range of perspectives and whether the Financial Sector Charter process has delivered its underlying promise of Positive Social Change is what this exploratory research thesis set out to address and forms the basis of the research findings and discussion in Chapters 5 and 6.

3.4 Sovereign Wealth Funds

An important component of this research thesis is the presentation of a praxis model. As was outlined in Chapter 1, this model is concerned with the formation of a social development endowment fund. Hence a consideration of literature exploring related types of funds is necessary.

Given the scale and depth of South Africa's triple challenges of poverty, inequality and unemployment (National Planning Commission, 2011) there have been calls for the ANC-led government to establish a SWF (Heil, 2019). What then are SWFs and could they, or a variant thereof, be part of a solution to finance the social and redistributive imperatives of a country such as South Africa, much as the policy tool of B-BBEE described in the preceding section has sought to do.

SWFs, as defined in recent literature, are "...extra budgetary mechanisms holding a (generally natural resource based) fiscal or foreign exchange reserve surplus" (Rietveld & Toledano, 2017). Alhashel's definition is similar: "SWFs are state-owned investment vehicles that invest globally in various types of assets ranging from financial to real to alternative assets." (2015). The Sovereign Wealth Fund Institute ("SWFI") defines them as "a state-owned investment fund or entity that is commonly established from balance of payment surpluses, the proceeds of privatizations, government transfer payments, fiscal surpluses, and/or receipts resulting from resource exports." The SWFI website ranks 78 SWFs, ten of these represent African countries such as Botswana, Angola, Nigeria, Algeria and Libya. Some countries have multiple funds (e.g. the USA) and a majority are funded as a consequence of the sale of natural resources found in those countries (SWFI, 2019).

Collectively, these funds represent assets worth more than \$8 trillion: Norway's fund is the largest at just over \$1 trillion; Botswana's by contrast is worth \$5 billion (SWFI, 2019). Between 2006 and 2014 the value of such funds doubled (Buteica & Huidumac Petrescu, 2017) and between 2014 and 2018, the value of such funds increased by a further 40% (Alhashel, 2015). The money in a SWF is typically invested in a very long term basis in foreign assets (such as the bonds issued by another country, or in the equity of foreign companies) to diversify risk away from the "home" country and earn a return that may then be applied – depending on the terms and mandate of the fund – to short term domestic spending such as subsidized or free education or health care, or to fund future state pension liabilities. The presence of a SWF is also regarded as an asset on the country's "balance sheet" and may thus have the effect of smoothing short-term volatility in for example an exchange rate (Rietveld & Toledano, 2017).

Progressively more academic literature on SWFs is being produced: Alhashel (2015) researched 65 such papers the majority of which were produced between 2008 and 2014. These papers fall into categories such as regulation and protection, transparency, benefits and performance (versus costs), investment strategies and portfolio effects, and activism, global justice and ethics. For example, Armstrong (2013) suggests that "those interested in the role of SWFs in the contemporary economy should widen their discussions of the ethical implications of such funds". Heffron (2018) proposes a taxation regime on energy production as a means of securing "distributive justice" for poor countries which are often the source of energy-related (and other) commodities.

Taking Armstrong's point about "potential of SWFs to assist in poverty alleviation" further, Heffron observes that the "literature does not focus on the distributive effect of an SWF" suggesting that in a world of severe inequality, "there is a need to ensure fairer outcomes from the policy-making process" and that a "SWF can result in redistribution of resources across society as well as orienting the economy towards a long-term and sustainable future" (2018). Given the redistributive nature of economic transformation policy and legislation in South Africa, it is perhaps unsurprising that calls for a SWF to be set up have been made, if such an entity could be a further source of assets and income to deal with poverty or inequality. However as reported in the literature, a key aspect of the success of a SWF has been a governance model that is independent of the day-to-day politics of the state, coupled with a high degree of transparency in the investments, income generation and income distribution of SWFs. Norway's model is cited as an exemplar in this regard, contrasted with Angola as having permitted high levels of nepotism (Alhashel, 2015; Armstrong, 2013).

While there are clearly some interesting and radical calls for global redistribution of resources from rich to poor countries emerging from the literature, in South Arica's case the question is more elementary: whether the country could set up a SWF to aid in the process of economic redistribution and social transformation that has been pursued by the government since 1994? And if so, what should the relationship between the fund and the government be? There is unfortunately a lack of SA country-specific literature on this particular question, and in time research and government-driven policy papers may emerge.

On the face of it, the idea of a SWF in South Africa has appeal – the country has natural resources and it has significant social development needs and income disparities. And there are examples of SWFs that have been set up for "developmental" purposes including domestic infrastructure and socio-economic projects (the UAE being a case in point) (Buteica & Huidumac Petrescu, 2017). However, from a macro-economic point of view South Africa does not have a Balance of Payments surplus and relies of foreign capital inflows to finance its budget deficits, a situation prevailing since the 1970s (Terreblanche, 2002), so it lacks some of the typical means of seeding a SWF. And while the country does extract a range of commodities (e.g. gold, platinum, coal, zinc, iron ore, chromium, nickel, copper and manganese) their extraction costs are high (Mineral Council of South Africa, 2018) and they are sold in international markets where prices are set competitively (meaning the country is a price-taker and not free to simply add a "markup" onto the price of these exports and bank this "profit" into a SWF.

There is also the more compelling argument that even if the country could generate surplus proceeds from the sale of exported natural resource commodities, should those surpluses be used on immediate social spending to meet acute needs of millions of people, or invested for in the long-term savings of the country to create social benefits for future generations (The Economist, 2017)?

Drawing from the idea of how a SWF might invest its money for developmental purposes, namely in the equities of companies (Buteica & Huidumac Petrescu, 2017) and the "activist" potential of such funds (Armstrong, 2013), is an emerging derivative of the SWF concept known as a SDF which is explored further in the next section.

3.4.1 Sovereign Development Funds

SWFs typically invest their funds in offshore equities, foreign bonds or real estate assets; these are traditional investment asset classes (Rietveld & Toledano, 2017), often made through existing capital market structures such as stock exchanges or bond markets. However, the idea of a SDF is to attract or "crowd in" investment from long-term savings vehicles such as local and foreign pension funds into certain projects, typically infrastructure related, in addition to government infrastructure development. Alternatively, the SDF (seeded by natural resource surpluses) specifically targets the raising of human capital levels in the country, through for example direct cash transfer to poor citizens, to raise the income levels of the most vulnerable. As noted by Dixon and Monk (2017) "limiting social deprivation can create the time and possibility for developing human capital". Since traditional funding by government budgetary processes is not always able to meet the growing "divide" between haves and have nots in a country (Standing, 2011), a SDF system of cash transfers from such a fund in effect deals with a current social issue (e.g. tackling poverty) using the income stream from an intergenerational savings vehicle.

Considering the South African context, one of the aims of economic transformation is to progressively reduce the high levels of inequality through the redistribution of wealth (Southall, 2004; Terreblanche, 2002). Dacin et al, in referring to work on cognition and heuristics (Kahneman, 2011) suggest that applying counterfactual thinking may be a means to unlock new opportunities and ideas by critically looking at previously accepted ways of undertaking certain activities (2011). Applying such counterfactual thinking to the wealth transfer concept inherent in traditional approaches to B-BBEE ownership structures in South Africa, and linking to the broad intent of an SDF, may provide a means to generate new wealth in the country instead of merely transferring existing wealth. This concept is set out in the praxis (Annexure 8) of this thesis.

3.5 Conclusion

This chapter has considered literature describing the often-contested and changing role of business in relation to ongoing, deep seated societal challenges across a number dimensions. Furthermore from the review of academic writing on B-BBEE it is evident that the role of South African companies in addressing the socio-economic problems in this society has advanced well beyond the traditional construct of CSR as found in developed market economies. Lastly, the chapter considered literature on SWFs and SDFs, noting call for a more activist or interventionist role of SWFs to catalyse further investment in human capital development.

While some research has looked, as noted in Section 3.3, into the Financial Services sector's part in this economic transformation journey, this research has not probed into the individual perspectives of industry and government role players and other stakeholders, to examine the formation and implementation of the 2003 Financial Sector Charter. It is this gap that presents a compelling opportunity for research; the methodology for this research is set out in the next chapter.

4 Research Methodology

4.1 Introduction

As was set out in the preceding chapters of this thesis, the objective of this exploratory research is to investigate the context and motivations that saw the Financial Services industry in South Africa voluntarily develop a blueprint for the economic transformation of the sector – a blueprint known as the Financial Sector Charter. This chapter sets out the study's research methodology, the sampling and information gathering procedures and the manner in which the data analysis was undertaken in order to reach the findings and conclusions that are presented in later chapters. The chapter commences with a consideration of the choice of research approach and the conceptual merits thereof, then continues with an explanation of the data collection and sampling methods applied. The subsequent data analysis technique is described together with issues around the validity of the findings. The chapter concludes with a review of the research ethics applicable to, and the limitations of, the study.

4.2 Research Approach – Rationale for the Selection of a Qualitative Approach

It is important to locate a research study within an appropriate research tradition and within that tradition, an appropriate research paradigm. Modern research in social sciences is typically described as following one of three broadly acknowledged research traditions or research designs, namely quantitative, qualitative or mixed methods research (Cresswell, 2014). Quantitative research follows the post-positivism tradition of determinism and reductionism (Armitage, 2007), being directed towards studying causal relationships or correlations between variables, using statistical methods on large sample sizes to prove hypotheses or draw theory generated by "deduction from a priori assumptions" (Patton, 2002). Objective data is obtained "from empirical observations and measures. Validity and reliability of scores on instruments lead to meaning interpretations of data." (Cresswell, 2014).

By contrast qualitative research, the use of which has grown significantly since the 1980s (Miles & Huberman, 2002), is a process of "actively enter[ing] the worlds of interacting individuals" which makes possible "description and understanding of both externally observable behaviours and internal states (e.g. opinions, values)." (Patton, 2002, quoting Norman Denzin). As a consequence of this process, "theory (or some other broad explanation) becomes the end point of the study", using smaller sample sizes to inductively build from data to broad themes to a model or new theory (Cresswell, 2014).

Thirdly, research may adopt a mixed methods design for a study whose context is suited to adopting particular elements of both approaches. This is a comparatively newer field of research design, where the intention is to utilise the collection of data that is both qualitative and quantitative to neutralise potential weaknesses in either form of the data, often through cross database analysis (Maxwell, 2013).

While various quantitative studies have looked at the financial impact of particular elements of economic transformation on South African companies and their shareholders (for example the work of Allesandri et al (2011) and Miller (2012) as considered in Chapter 3) such studies are by definition exploring numerical measures across a large number of companies, sufficient to generate an appropriate sample size in order to test a particular hypothesis. In the two research examples cited above, the test was the creation of shareholder value over time from a B-BBEE ownership transaction. This study, by contrast, seeks to explore the events and processes that led to the formation of a legislative and business environment which *resulted in* the creation of those very ownership transactions, focussing on Financial Services companies. This is an exploration that is better suited to a qualitative approach. Reinforcing this, Denzin and Lincoln (2011) note: "qualitative research is a situated activity that locates the observer in the world. [It] consists of a set of interpretive, material practices that make the world visible."

From an epistemological point of view, the particular research paradigms (or "knowledge claims") typically associated with qualitative research are often described as being social constructivism, critical theory (or advocacy) or pragmatism (Cresswell, 2014), though scholars such as Denzin and Lincoln introduce other emerging paradigms into this list as well, including feminism, racialised discourses, cultural studies and queer theory (2011). Whist there are recognised overlaps in these paradigm descriptions (Patton, 2002), as the use of qualitative research continues to grow so do the theoretical boundaries continue to be pushed and reimagined, such that it is more about “taking account of the world that we have inherited” and less about the hegemonic dominance of one paradigm over the other (Denzin & Lincoln, 2003).

Social constructivism (often combined with interpretivism) seeks to understand social phenomena from a context-specific perspective, noting that a particular “reality” is either socially, culturally or historically constructed. The aim is to generate or inductively create meaning, often by posing questions to generate data through a process of interaction among individuals (Lincoln & Guba, 1985). Critical theory (or critical realism), by contrast, has a strong focus on social justice, arguing that social constructivism does not go far enough in dealing with marginalised or disenfranchised groups in setting – as an outcome – an action agenda to address injustice or inequality (Cresswell, 2014). The pragmatist approach – not being committed to the underlying issues of the above paradigms – views the problem or issue as primary and carries an interest or concern in applications and solutions. Research may thus employ, in a creative basis, either qualitative or quantitative methods (or a combination of both) to understand the root of the “problem” that best meets their purposes (Cresswell, 2014) in adopting a pragmatist approach.

Given that the main objective of this exploratory study was to understand the factors that caused the development, adoption and implementation of the 2003 Financial Sector Charter, and 15 years later how the industry, government and their social partners might set the agenda for a new, second phase of transformation to tackle the country’s ongoing social challenges, a critical realism approach with its social justice orientation aligns strongly with the stated research objectives (Merriam & Tisdell, 2016). Given the practical requirements of this MPhil degree, a further important benefit of adopting a critical realism approach is its focus on action resulting from the study; as Merriam and Tisdell note of the approach (quoting Patton, 2015): “it aims to critique existing conditions and through that critique, bring about change” for a “more just society” (2016).

There is also a “longitudinal” element to the study: the Financial Sector Charter development process was initiated in 2002 and took place during 2003, yet 15 years later there has been debate in the South African parliament (Carrim, 2017) on the effectiveness (or otherwise) of the industry’s transformation efforts. Hence the study provides an opportunity to look at contemporary (that is 2018/19) views as well, to establish whether and how the contextual situation and perspectives of companies, government and social partners have changed over the period.

4.2.1 Grounded Theory

Within this approach the researcher employed grounded theory-type methods to analyse the responses from the data gathering process to reveal the complexities and nuances of the initial Charter development process and its subsequent implementation. This approach does have limitations that are well recognised: the ability of the researcher to generalize the findings outside the study setting are constrained and theory testing is not possible; however, the approach is regarded as suitable for initial exploratory research.

Grounded theory emerged as a methodology in the 1960s following fieldwork by Glazer and Strauss on terminal patients in American hospitals. Glaser and Strauss (1967) advocated that “theory could be deducted from research grounded in data rather than deducting testable hypotheses from existing theories.” Their initial work was further advanced by Strauss and Corbin and although the original proponents diverged in their views on the specific application of the methodology (Charmaz, 2006), the methodology was further developed by Charmaz, who emphasised the inherent flexibility of grounded theory as being one of its greatest strengths (2006).

Taken to its full extent, grounded theory “through a process of constant comparison and reduction, aims to establish tight, well-integrated theory built from well-defined concepts arising directly from the empirical research in hand” (Wimpenny & Gass, 2000).

Although it is not the intention of the researcher to develop theory, focussing instead on an exploratory study, it was precisely this flexibility and the process of constant comparison that lead the researcher to make use of grounded theory methods to analyse interview responses (from black business professionals, government, industry leaders, industry bodies and non-governmental and community organisations), to reveal the complexities and nuances that drove the development of the initial Charter process. Similarly, to seek these perceptions from those who have inherited the Charter and its gazetted successor – the Financial Sector Code – in 2018/19. As illustrated by Charmaz (2006) "the potential strength of grounded theory lies in its analytic power to theorise how meanings, actions and social structures are constructed". Another advantage of adopting grounded theory methods for analysis is that qualitative research methods often produce significant quantities of raw data, and such methods "provide researchers with analytic tools for handling masses of raw data", allowing "results and findings [to be] grounded in the real world." (Patton, 2002).

The integration of the findings from this unique case in this manner with a critical lens (Merriam & Tisdell, 2016) enabled the underlying perceptions and factors that motivated the development of the Financial Sector Charter in South Africa in 2003 to be uncovered and assessed, together with lessons from its development and implementation through to 2018. In this way commentary about the sector and its achievements regarding transformation can be better analysed and understood, allowing for practical opportunities (common to critical realism research and a requirement for this dissertation) to be better formulated and situated.

4.3 Data Collection and Research Instruments

At an elementary level, research allows one to undertake an enquiry into how the world, or a part of it, operates. As was stated by Patton, a researcher is interested in "investigating a phenomenon to get at the nature of reality with regard to that phenomenon" (2002). Patton also notes that in the design of a qualitative study, the researcher is obliged to make trade-offs, given the limits on resources, time and "the human ability to grasp the complex nature of social reality." (2002).

The primary tool to conduct the research required for this thesis was semi-structured, intensive interviews with a selected sample population, making use of an interview guideline to ensure consistent lines of enquiry between interview subjects. Interviews permitted the researcher to "enter the other person's perspective" (Patton, 2002) such that the real issues that were at the heart of the Charter process, issues that are "complex, situated, problematic relationships," could be extracted (Stake, 2003) and analysed. Hence the interview questions were developed in such a way as to explore the meaning of events and activities to the individuals who were at the heart of what became a collaborative effort to develop the Charter in 2003. Similarly, with the current leadership of companies in the industry and the others who are connected to the industry as "heirs" of this collaboration, the interview questions explored how they saw the results of this past work and, perhaps more importantly, how they perceived the potential for future endeavours like this given the current South African social, economic and political context.

As Maxwell (2009) further noted, this approach is situation specific and requires an open-ended, inductive approach to discover the meanings of and influences on the efforts by the industry to pursue the economic transformation agenda represented by the Charter.

A copy of the interview protocol and questions is set out in Annexure 3.

Emerging from the early set of semi-structured, intensive interviews was the realisation that a broader collection of actors collaborated in the formation of the Charter. In particular, trade associations and government were integrally involved, as were black business formations (who were represented in the negotiations with the Financial Services industry through ABSIP). It thus became necessary to interview a broader range of actors involved in the process (both in 2003 and 2018/19) to capture a more diverse perspective than simply those of the companies in the Financial Services sector.

In total 22 interviews were conducted from October 2018 to early April 2019. In most cases the interview was held at the work or office location of the person interviewed. Interviews lasted between 35 and 70 minutes.

While the researcher took field notes during the interactions (Gubrium, Holstein, Marvasti, & McKinney, 2012), interviews were recorded with the consent of participants and subsequently transcribed on a near-verbatim basis. This process generated 284 pages of transcripts, which formed the basis for the data analysis of the responses. One interview subject was not able to conduct a face-to-face interview and provided email responses to a subset of the interview questions.

Anonymised profile information on the interview participants is listed in Annexure 4.

What is interesting to note from this list is the “mobility” of participants who were involved in the sector and how some of them have moved between different types of bodies over the intervening 15-year period. For example, from banking to insurance or from government into industry. Such interviewees were thus able to yield insights from both sides of the Charter development process and this aided the research effort from a time management perspective.

The researcher was able to supplement this interview material with a range of secondary materials drawn from a number of public and other sources, such as papers and reports presented to the South African Parliament (or its committees) on transformation in the sector, the Charter itself and its subsequent incarnations as a gazetted sector Code, other non-academic research into the performance of economic empowerment share ownership transactions and various press articles. Approximately 1350 pages of material were sourced and analysed in this manner, adding contextual depth to the interview responses. A list of these documents is provided in Annexure 5.

It was this combination of data sources within the specific area of study that enabled the researcher to meet the expected standard of verification and replication, issues that are addressed in more detail later in this chapter (Rowlinson, Hassard, & Decker, 2014; see also Maxwell, 2009).

Within this process of data gathering, the researcher himself became a research instrument, as the person who conducted all the interviews and who reviewed the secondary data materials (Cresswell, 2014). Adding to this “immersion”, the researcher is employed by a Financial Services company and has had exposure to B-BBEE initiatives in his work in recent years. This exposure enabled the researcher to critically interact with the interview subjects and the secondary research material, so as to “understand, describe and … explain [the] social phenomena ‘from the inside’” (Kvale, 2007). As noted by Gillham however, the researcher needed to remain cognisant of the need to maintain a critical lens on the data, and not become over-reliant on “seemingly significant accounts that overbalance” the researcher’s judgement (2000).

4.4 Sampling Method and Interview Process

A qualitative inquiry, as noted by Patton (2002), “typically focusses in depth on relatively small samples, even single cases (N=1) selected purposefully…selecting information rich cases that are studied in depth.” There was thus, from the start of the fieldwork phase of this research, a specific population in mind that would define “the set of entities from which the research sample [would] be drawn.” (Eisenhardt, 1989).

As is evident from the research question, the focus of this research is on the Financial Sector Charter. Any decision at the time to participate in as significant an endeavour as an industry-wide charter would have involved the leadership of these companies, whether listed on the JSE or not (some “sizable” Financial Services firms in the asset management and insurance sub-sectors are not, and were not, listed). Consequently, the researcher purposefully sought to interview either the board chairman, the chief executive officer or other executives of the targeted companies (“industry executives”), as these represented the best fit for the type of study being conducted (Patton, 2002).

As described in the Chapter 2, there are over 60 companies listed in the Financial Services index of the JSE at the time the research was conducted (IRESS, 2019). From the literature review it became evident that some Financial Services companies, acting through their trade associations, played a more active role in the Charter development process than others (Hamann et al., 2008; Patel & Graham, 2012). Thus the primary sample consisted of those leaders of the Financial Services companies most involved at the time of the Charter's development. This resulted in a group that was drawn from the major banks and the major insurance companies (both life and non-life). The Charter itself was drafted with these sub-sectors of the industry in mind, as evidenced by their trade association's signatures thereto when the document was officially signed on 17 October 2003 (Financial Sector Charter Council, 2003). The focus thus was on the credibility of the sample population, as pertaining to the Charter development process, and less so on a wide coverage of the companies across the Financial Services sector as a whole.

Due to the fact that the study specifically wished to juxtapose and compare the position of such companies in 2003**,** with the present-day position 15 years later, the sample included the current leaders of the same set of companies. Taken across the past and incumbent leadership, a primary sample of 9 Financial Services companies was approached from which 11 interviews were conducted.

However as noted previously, what quickly emerged from the early interviews with some of the sampled industry executives was that the Charter development process heavily involved other parties from outside the industry. The black business group ABSIP was the primary counterparty to the industry in the negotiations, with the South African government, through the National Treasury department, overseeing the process. Based on the recommendation of the initial interviewees, and to help ensure that a balance of perspectives on this negotiation process was obtained, a second interview group was established. The aim of widening the pool of input data was thus to triangulate data from a variety of interview subjects, to improve the validity of the emergent findings (Hastings, 2010). This second group consisted of individuals from ABSIP, from government, others who worked (or currently work) with the companies in the industry either through representative industry bodies (such as the Banking Association South Africa, or the Council), or in a collaborative capacity via non-governmental organisations that conduct policy research or are the beneficiaries of black economic empowerment initiatives (such as foundations). This "snowball" sampling approach enabled the rapid identification of additional “information rich informants” to be added to the target list based on suggestions from initial interview candidates (Patton, 2002).

Again a “past and present” lens was applied to this secondary sample and for this group 15 individuals were approached from which 11 interviews were held. The outcome of this additional group’s inclusions was to enable the researcher to ensure the study had “adequately understood the variation in the phenomena of interest in the setting” (Maxwell, 2013).

4.5 Data Analysis

Following aspects of grounded theory-based approaches to the data analysis (Charmaz, 2014) required the capturing of initial interview data on a data analysis platform in order to analyse the detailed content and generate findings; the data analysis tool nVivo was used for this purpose. Utilising nVivo permitted the researcher to define codes (or tags) to identify pieces of information from each interview transcript and key secondary documents that had been imported into the tool, which could then be grouped or categorised. All 22 interviews and interview memos were coded in this way. Through this primary phase of the data analysis, it was evident how “the interviewees [brought] forth new and unexpected aspects of the phenomena studied, and during analysis of the transcribed interviews new distinctions [were] discovered. This is well in line with the purpose of an exploratory study - to discover new dimensions of the research topic.” (Kvale, 2007).

An initial set of themes or first order data sets was developed through an iterative review of the actual raw response data from participants, field notes and early codes. Repetition of this process allowed for further refinement of findings and emerging or potentially promising themes, discarding initial views and adopting others as the process continued (Miles, Huberman, & Saldana, 2014). During this phase the researcher strove to keep a focus on “learning the meaning that the participants hold about the problem or issue, not the meaning that the researcher [brings] to the research or that writers express in the literature." (Cresswell, 2014).

The emergent findings were progressively cross-checked against the key aspects emerging from the literature review such that the key theoretical themes (including B-BBEE, the role of business, ambidexterity, multi-stakeholder convening and partnerships) were considered and assessed. As second order themes emerged from the repeated rounds of analysis through a critical lens (Merriam & Tisdell, 2016), the basis of the study's key findings and insights began to crystallise (Charmaz, 2014). This method of data analysis combined a bottom up consolidation of ever-more abstract categories – inductive processing – with a more deductive comparison of these categories against their antecedent data to see if there was more evidence that corroborated or deepened the themes (Cresswell, 2014).

In summary, seven parent categories (primary nodes) and 24 secondary nodes were settled upon. This grouping was placed longitudinally into three time-based periods to reflect the development and implementation of the Charter (see Chapter 5).

The research process is depicted in the timetable below:

Research Stage	**Sept 2018**	**Oct 2018**	**Nov 2018**	**Dec 2018**	**Jan 2019**	**Feb 2019**	**Mar 2019**	**Apr 2019**	**May 2019**
Ethics application / approval									
Interview preparation									
Interview process									
Transcription and import									
Initial data analysis									
Final data analysis									
Findings documented									

Table 5. Research data gathering and analysis timetable

4.6 Research Ethics

Given that the primary research tool was in depth, semi-structured interviews with human subjects, ethics approval was obtained from the Ethics in Research Committee of the Faculty of Commerce at UCT prior to the commencement of the fieldwork. This approval included the requirement to adhere to the Commerce Faculty Ethics in Research Policy. Interview participants were briefed about the intent of the research when they were first approached through a cover letter, and appropriate individual informed consent was obtained in writing from all interview participants. Where corporate policy dictated, company informed consent was also obtained, though this was required in only two cases. Interview participants were advised of the voluntary nature of their participation and that the interview sessions would be recorded. Participants were advised that they retained the option to withdraw from the research process at any time, could request a copy of the interview transcript, and that the recording would be stored according to the University's data storage policy.

The researcher undertook to maintain the anonymity of individual responses (as well as the identify of their companies) when applying for research ethics clearance and this was explained to the interview subjects, with the proviso that although responses would be represented in such a way that anonymity would be maintained, the nature of the study and the limited number of participants in the Charter development process could potentially result in identities being indirectly inferred by a highly informed reader of the thesis. However, the researcher is of the view that the interview sample is sufficiently large and the range of organisations and individuals is sufficiently diverse to mitigate, though not eliminate, this risk.

4.7 Research Criteria

Whilst there is an evolving debate amongst leading qualitative research practitioners (such as Denzin & Lincoln, 2011; Lincoln & Guba, 1985) surrounding the appropriate means of achieving "validity" and whether it is appropriate at all in qualitative studies, others such as Maxwell have argued for a more straightforward application of validity, namely the manner in which a study demonstrates the credibility of its accounts, descriptions and conclusions (2013).

Through the interactions with the interview participants it became quite clear that, as many of them were key protagonists in the Charter development and implementation process, their insights represented “thick” description of the events and process in question (Gerring, 2007). Thus the study’s purposeful sampling approach meant that the “validity, meaningfulness and insights generated” from this group was in large part a result of their data’s “thickness”, or information richness, and less to do with a large sample size of, for example, all Financial Services companies operating in South Africa (Patton, 2002).

Hence the specific group of interview participants coupled with the longitudinal element of the study was the primary means of validating the research findings and conclusions (Maxwell, 2013).

4.8 Limitations

Researcher bias describes the risk of the researcher selecting or over-emphasising particular data because it stands out for one reason or another, or because it fits the expectations, goals or theories of the researcher (Maxwell, 2009). Given that the researcher is employed by a Financial Services company, the potential for researcher bias was managed through the professional approach of the researcher (in interacting with the research participants in a courteous, business-like fashion, many of whom he had no prior interactions with), the consistent application of the interview question set, and by accepting that some personal influence may be present through the interview process and in the data analysis phase in shaping of interpretations and development of categories and themes (Cresswell, 2014). However, as was noted by Maxwell (2009), this insider knowledge can have a positive effect on a qualitative study: provided it can be acknowledged and understood it can be productively applied to deepen respondents’ input and the subsequent analysis thereof.

Mindful of his proximity to the research domain and the resultant potential for influence on aspects of the research process (what is termed reflexivity), the researcher remained vigilant and self-aware of his personal interests and values and was able to set these aside throughout the phases of this research project, embracing instead the opportunity for discovery and challenge to personal perspectives that the interviews afforded him. Furthermore, the researcher actively sought to include within the sample population the views of people who stood in counterpoint to the industry in the development and adoption of the Charter, thereby introducing a more diverse set of views into the research findings. Aligned to this, the selective use of grounded theory methods permits the researcher to bring prior theoretical and practical experience to bear in the research process (Charmaz, 2006).

Lastly, the interview sample was drawn primarily from those inside or close to the Financial Services sector in South Africa. Future research may wish to broaden the scope of the study to other smaller companies in the sector, or to cover other industries to assess whether the economic transformation path and specific charter approaches adopted by those industries have achieved a positive socio-economic outcome.

4.9 Conclusion

The main objective of this exploratory study was to understand the development, adoption and implementation by the Financial Services sector of the 2003 Financial Sector Charter, and with the benefit of 15 years of hindsight, how the industry, government and their social partners might set the agenda for a new, second phase of transformation of the sector. For a study such as this it was necessary to match these research objectives with a methodology that was appropriate. Hence an inductive, qualitative approach was used by the researcher, under the general mantle of a critical realism research paradigm.

The primary data collection method used was intensive, semi-structured interviews with a range of senior figures representing various Charter constituencies. The rich interview data collected from these purposefully sampled interviews was analysed alongside a range of secondary materials to provide context, in order to generate the themes and categories that formed the basis of the research findings and conclusions. These findings are presented in the next chapter.

While the research design described here has created limits on the study's ability to generalise its findings (by for example the nature and size of the sample), the inputs of a diverse group of multiple actors involved in the Charter process helped ensure that validity concerns within the research setting would be satisfactorily addressed.

5 Significant Findings Emerging from the Research

5.1 Introduction

This chapter explores the research findings following the data analysis conducted on the semi-structured interviews. This recursive analytic process led to the refinement of the initial categories that emerged from the first review of the interview content, and the development of seven high level (or parent) categories. These in turn were grouped together in a longitudinal manner, reflecting the 17 year period under which the Financial Sector Charter was conceived, implemented by industry players and monitored. As this research has been conducted at the end of the 17 year period, it offered an opportunity to assess the role of the Charter in the country's wider economic transformation journey and to consider future directions in this regard.

The manner in which the high-level parent categories have been grouped together across this 17 year timespan is depicted below:

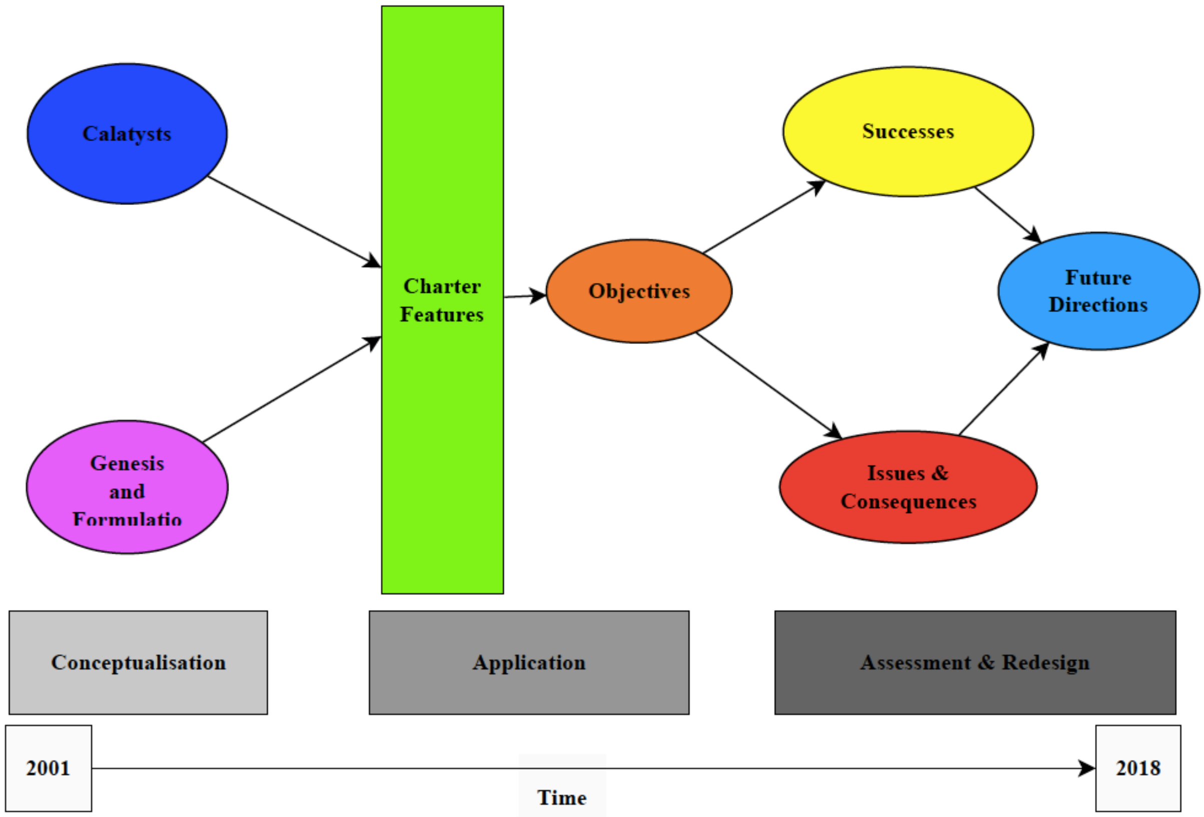

Figure 4. Overview of parent categories across the study timespan

Viewed in a slightly different and more granular level, there are 24 "nodes" that make up the parent categories and these are depicted in Figure 5 below:

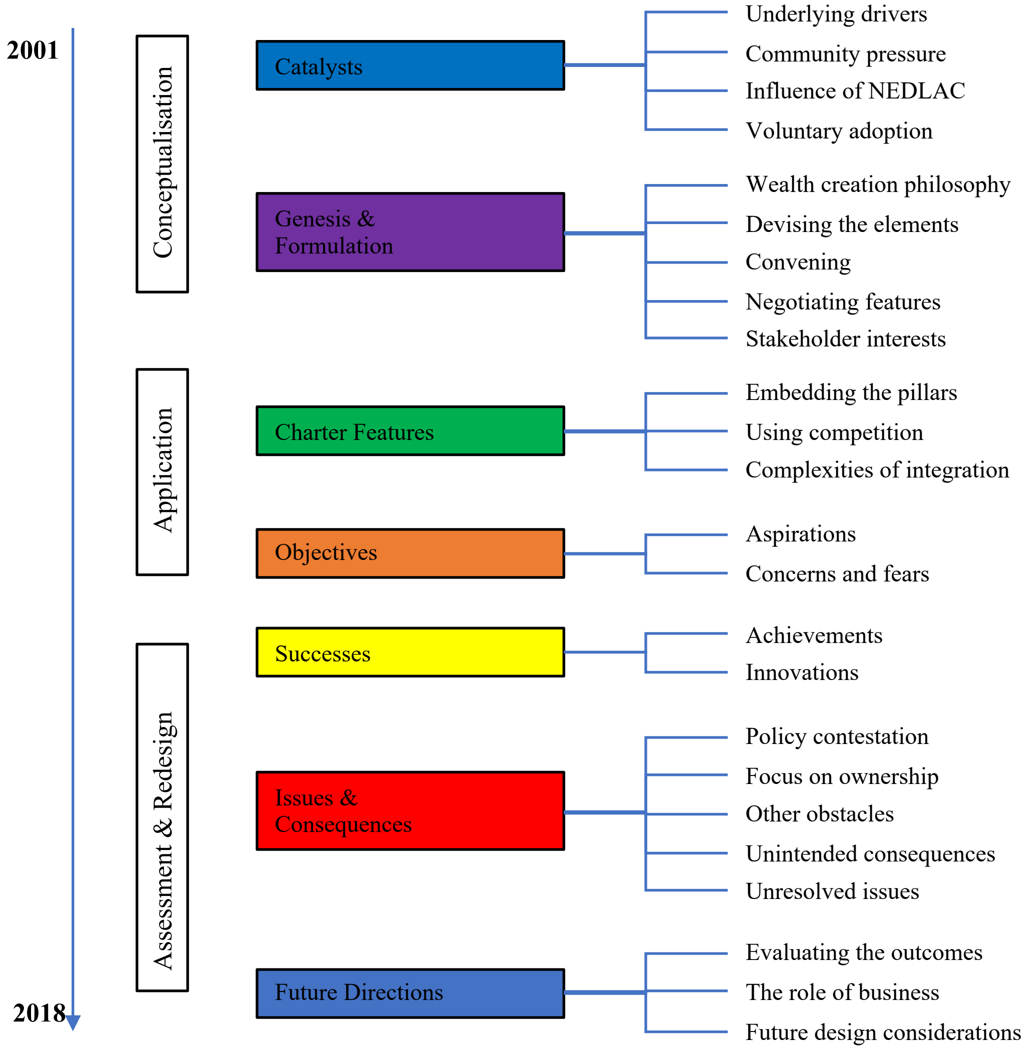

Figure 5. Parent categories and nodes

While coding and organising this data, the researcher noticed several significant themes emerging from the interview narratives: a wealth creation philosophy that sat behind the design of the Charter; a deliberate use by government of the competitive nature of the industry to drive the development of innovative approaches for achieving the Charter's targets; significant policy-level contestation within government and its alliance partners around the approach to the Charter; a large diversity of stakeholder interests that the Charter tried to accommodate; a deep commitment from the parties to the Charter to change the structure and practices of the sector; and the successes in this regard that have been lost in the contemporary narrative about transformation in the sector. Lastly, that business has accepted and played an active role in bringing about societal change. The perspectives of interview participants that give rise to these key findings are presented in the sections that follow, while their significance is explored in the Discussion chapter that follows.

A number of entities played a role in this period, as described in Chapter 2, and while many are referred to in previous chapters they are listed below for ease of reference in this chapter:

Term	Meaning
ABSIP	The Association of Black Savings and Investment Professionals
ANC	African National Congress party
Alexandra	A high density "township" of Johannesburg, close to the suburb of Sandton
COSATU	Congress of South African Trade Unions
CoGP	Codes of Good Practice of the DTI
DTI	Department of Trade and Industry
FSCC	Financial Sector Campaign Coalition
FSCC	Financial Sector Charter Council (or Council)
FSTC	Financial Sector Transformation Council, new name for the Council
NEDLAC	National Economic Development and Labour Council
OEAE	BEE ownership principle of Once Empowered, Always Empowered
PIC	Public Investment Corporation
RDP	Reconstruction and Development Plan of the 1st ANC government
15%/ 25%	BEE ownership split concept, with 15% of equity held indirectly by pension funds and unit trusts, out of a target of 25% held by blacks
Mbeki-ites	A reference to persons politically connected to former president Thabo Mbeki
SACP	South African Community Party
Sandton	A wealth suburb of Johannesburg, often called Africa's richest square mile
Zuma-ites	A reference to persons politically connected to former president Jacob Zuma, who succeeded Thabo Mbeki

Table 6. Glossary of terms and parties

5.2 Conceptualisation Period

As described more fully in the Chapter 2, ideas around economic transformation of the South African economy were formally articulated in the ANC's 1994 election manifesto. The early attempts at legislating transformation interventions in the workplace in the late 1990s took place against a backdrop of some early, high-profile ownership "deals", many of which were narrowly focussed on specific individuals. But it was the BEE Commission, set up in 1999, that laid the foundation for the current multi-dimensional approach to black economic empowerment in the local economy. With this background, what then were the catalysts of the Financial Sector Charter in the eyes of the interview participants?

5.2.1 Catalysts

The interview participants identified a number of factors that came into play in the years before and up to 2003 when the concept of a Financial Sector Charter was introduced. These fall under the heading of "Catalysts" and have been grouped into four nodes: underlying drivers, community pressure, NEDLAC influence and the question of voluntary participation.

5.2.1.1 Underlying Drivers in Society

From an introductory point of view, it is clear from the interviewees that this was part of a wider process of economic transformation that had begun with the political transition in South Africa from the early 1990s:

> *There was* an *incredibly energetic debate up until 1994 about the future, not just economic, [but] socio-economic development of South Africa. Participant #16*

> *What catalysed that process was the need for transformation in the country, which became an issue and a theme, and an objective of government from '94. So, it took ten years, almost, to come up with these charters. Participant #8*

> *First, it was fashionable to do BEE deals… I would say there was, essentially, no sector...that wanted to be left behind, including the Financial Services sector. Participant #9*

> *It was led with the notion of the imperative to do something…I remember this very clearly. In which you had executives from the industry together with black executives*

from the industry. And probably other fields. In various rooms, break outs, discussing, starting this debate. Participant #12

I think the industry recognised that if they don't deal with this it will breed underlying tension within the industry....I guess it was kind of like, we're taking a position, we're putting together a Charter. And it had to be done because we needed to normalise the industry post-apartheid. Participant #13

It would have taken a really thick-skinned person to deny that given all the changes that are taking place from a political point of view, that the economic side didn't catch up. Participant #11

There was also, evidently, a concern about the stability of the sector over the medium and long term and what might happen to it if no transformation was undertaken. Further, there was a gradual build-up of sentiment amongst industry leaders that transformation was needed in the sector:

I think it started out with, it may have been a concern rather than a big moment that says we are all progressive transformers. There may have been a concern, what the hell is going to happen? Participant #6, (talking about industry's leaders)

The sector is made up of people who spend a lot of time thinking about risk and country risk and the political economy and the future. And I think that one shouldn't be surprised that they led discussions in South African business on the need for a voluntary charter. Participant #7

The sector, I think through the leaders within the sector, they realised that they needed to take responsibility for transformation themselves. But they couldn't do it on their own. Participant #10

Apart from these generic factors, an awareness of poverty and inequality as socio-economic issues manifesting themselves in the country also played a role in driving a growing awareness of the need for change in the industry:

The overarching problem to be addressed over the decades to come here [in South Africa] is poverty… Participant #2

> *You had a leadership in, in the banking sector which was very progressive…when people ... were conscious that for business to thrive you needed to deal with ... equality. Participant #7*

Lastly, there was evidently a sense that some business leaders in the Financial Services industry recognised the growing momentum for change outside and inside the sector that could no longer be ignored. For example, within the banking industry, the board of the (then) Banking Council resolved as follows in August 2001:

> *We believe that the industry is at a watershed. Either an adversarial relationship, typified by animosity and negative legislation will be entrenched, or a constructive partnership between Government and the banking sector will be established during the next six months. Participant #16, personal account.*

5.2.1.2 The Impact of Community Pressure

Given this broader socio-economic context and the awareness in some business quarters of the need to formally begin to address the transformation question, different forms of engagement and interaction involving parties outside the industry and government began to take place. The form of these interactions is captured in the following responses:

> *The automatic primary goal is to redistribute the wealth, to catch up and it is a huge, it is a vast sweeping problem here, and that absorbed the focus of government and at least some segments of the private sector. Participant #2*

> *At the same time, there were ... forces call it the black business community, financial sector community, who were saying a similar thing; it would better off if we started to talk. Participant #1*

But there were civil society formations active in the country that decided to be more overt in their approach: very specific pressure began to be applied on the industry in the early 2000s by the FSCC, together with the SACP, as discussed in Chapter 2:

> *I think that firstly, one needs to recognise that this [the formation of the Charter] happened through NEDLAC. And NEDLAC's process was catalysed, certainly in my view, I have very little doubt, by the Communist Party's Red October campaign against the Financial Sector. Participant #15*

> *Community and labour were very important …They [the SACP and trade unions] were involved in this. They would claim that they catalysed the need to have this thing. Participant #17*

Yet despite this apparent readiness and the ability to represent some of the core issues relating the exclusion of the majority of South Africans from the financial system, the presence and involvement of the labour unions and the SACP did raise questions in some quarters:

> *The problem then started to become the Communist Party, because they had claimed that they are … representing community, which was a lot of nonsense. Participant #14*

> *And in a "cute" way, the Communist Party set themselves up as the "community" in that circle. Participant #6*

> *You had some constituencies with a lot to lose, and a lot of resources, and you had others with nothing to lose and they could therefore constantly make demands. Participant #7.*

And despite their Red October campaign (described in Chapter 2), and the apparent success thereof, the community constituency was then excluded from the formal Charter negotiation process, and this group only "joined" later on upon the formation of the Council:

> *So it's interesting in this mix…while there was a community drive, if you take the SACP and their Red October Campaign through, that catalysed things … Or at least created the environment, but they didn't end up with a presence until the Council [was formed]. Participant #17*

5.2.1.3 The Influence of NEDLAC and the Financial Sector Summit

In the wake of the pressures exerted by the community protests organised by the SACP under the banner of the FSCC, the issue of transformation of the Financial Services sector came before the multi-party negotiating forum known as NEDLAC (introduced Chapter 2):

> *It then went into the NEDLAC process, and there was a view at NEDLAC that we needed a Financial Sector summit to discuss the issues raised by the Communist Party. We also, immediately after the marches and so on, met the Communist Party [as Banking Council] and we said, look, some of the issues you raise are valid. We want to engage. We want to see how we address transformation in the industry, but we want to do that in a way that's actually constructive and recognised. Participant #15*

> *Arising from NEDLAC, there was a series of issues. But there was something called, it may have had a name like the Financial Sector Summit, which was pushed by COSATU, out of the NEDLAC process. Participant #6*

As noted by Participants #15 and #6 above, the NEDLAC discussions gave rise to the Financial Sector Summit in August 2002, which was the first time that the industry acknowledged that it would make a commitment to transformation, through a declaration of intent articulated as follows:

> *"We are fully aware of the need for economic empowerment of all the people of this wonderful country. It would be futile to believe that there can be prosperity for some, without there being a reasonable level of prosperity for most…Today is, for us, a watershed. All four [NEDLAC] constituencies have effectively been involved in putting together a framework agreement which signifies a new beginning. The next step is to use this framework agreement as the first input for developing the Financial Sector Charter."* (Tucker, 2010)

5.2.1.4 The Formation of the Charter: Voluntary or not?

Previous academic research into the Financial Sector Charter has noted how the industry claimed to have "volunteered" its participation in the Charter formation process, while noting that other factors had influenced the process (Hamann et al., 2008). This study provided the researcher with the opportunity to explore this question with the interview participants, several of whom were intimately involved in the actual process in 2001 to 2003. The key findings in this regard are set out below:

> *It was inevitable that something was going to happen, so it becomes better to be controller than to be controlled, for want of a better way of putting it. If you accept that a whole lot of change was going to be coming and shareholding was going to be changing hands and everything, then better you try and become the master of your own destiny. Participant #11*

> *If we don't do something here you are going to be forced with government taking the lead on this and it was that we, industry, took the lead. Participant #1*

> *This is also a distinguishing factor. The Financial Sector Charter was not a demand of government. It was an initiative of the sector. So the sector said we need a Financial Sector Charter. Participant #14*

> *And so linking these and just the mood of the country it was clear that something was about to happen here, it would either come at us or we would go and be proactive in how we deal with it. Participant #3*

So my view is that the Charter was voluntary…You have got people who are smart and can see the forces at play. Participant #7

[I] suggested that, look, we volunteer a charter. And the reason for that is if we volunteer a charter, one, we're seen to be proactive, two, we can begin to actually address some of the issues in a way that actually makes sense for the industry. And three, we can begin to drive the process to a certain extent…And we had a better chance of driving those debates if we were seen to be on the front foot, proactive and voluntary. Participant #15

Given that these interview participants quoted above represented government (National Treasury), trade associations and companies in the industry such alignment of views is perhaps not surprising. Other interview participants expressed a slightly different perspective on the matter:

It was not really volunteered. Firstly ... they [industry] knew that it's going to be a demand for them to change. BEE legislation was being drafted; in 2003 it was passed, so they knew that that was coming. So I think they took the lead, you know, to anticipate those ... things and make sure that it [was] within their control. Participant #10

It was mixed ... I do know that there were people who just didn't like the idea… there were people [in industry] who kind of said: 'Is this absolutely necessary to do?' Participant #9

The private sector, as a whole, didn't volunteer initially. Like anything new, especially of this nature, the first part of post implementation ...was a compliance exercise. And remained a compliance exercise for quite a few years. And it did take a while for organisations…to embrace the concept as a business imperative that had to be done if we are going to grow our customer base, or grow our employment base, or skills base. Participant #8

This suggests some level of ambivalence persisted despite the early enthusiasm of the Financial Services sector's leaders involved in the Charter's development.

5.2.1.5 Concluding Observations on Catalysts

In summary the following responses encapsulate the foregoing comments in relation to the underlying drivers or catalysts behind the formation of the Financial Sector Charter:

Political and social pressure on the banking system to transform itself on all levels and be more accountable to [South African] society and all societal stakeholders. As well as *an awareness by the banks that transformation was part of a sustainable future for the country and hence their future too. Participant #4*

I have little doubt that the pro-active and voluntary nature of the initiative lay at the heart of resolving these potentially contentious issues. If the sector had found itself in the predicament of "reacting" to a Government initiative to impose obligations on the industry, the discussions would have been very different. Participant #16, Personal account

Thus the answer to the question of volunteering is perhaps best interpreted as a phased process: there was evidently community pressure that led the industry into a negotiation process. Furthermore, the actual development of the Charter itself was then largely driven by the industry and not by government (as happened in the Mining Charter), as is revealed in the next section.

5.2.2 Genesis and Formulation of the Charter

With the commitment having been given to initiate the development of an industry-specific charter, in early 2003 the process of negotiating this document began. This category is called "Genesis and Formulation" and consists of five nodes: wealth creation philosophy, conceptualising the Charter pillars, convening, negotiating tactics and stakeholder interests.

5.2.2.1 Wealth Creation in South Africa

One of the unexpected themes that emerged from some of the interviews was the idea that the Financial Sector Charter was a means to alter the course of wealth accumulation in South Africa. This finding builds off the work of Terreblanche (2002) described in the Chapter 2, who noted the apartheid system systematically deprived a large majority of the South African population of the means to accumulate assets:

People who weren't white were not allowed by law to own land, their houses and register them and to be able to collateralise them, so generations grew up without the ability to develop capital through their own homes. That was a jugular problem out of apartheid. Participant #2

And all of us, our primary mechanism for capital accumulation is through ownership of property. Participant #16

From the interviews it was evident that there was a desire on the part of the new democratic government to address the asset deficit and economic empowerment legislation was one of the means of effecting that:

> *At the time that was Thabo Mbeki's model, that you will make a few people at the top really, really wealthy, and then you'll have the trickle-down economics of wealth flowing through. Participant #13*

> *And World Bank's research … was saying you get your growth rate to 5% going on, the flow down to the poorest is going to happen. The upper levels are going to make huge money but there will be some flow down. So you get to '94 and you have the bulge here of the population without their own homes, without their own land and with close to zero capital. Now you have a change to government and to ethos. The automatic primary goal is to redistribute the wealth, to catch up. Participant #2*

> *Bearing in mind that government had started on this process of Broad-Based Black Economic Empowerment … addressing the policy and legislation issues [at] a broader, country level. Participant #8*

> *You had obviously, a government at that time that was very clear on driving the Broad-Based Black Economic Empowerment Act. I think they were actually quite sophisticated in their view about the economy. They were clear that you needed to grow the economy, because it's an important component of giving effect to social cohesion, but they also recognised that the disparities in society were so big that if they were allowed to continue there would be social dislocation, and therefore, you needed to think about closing the gaps in poverty and equality and unemployment. Participant #7*

In summary, what the overall intent is from a wealth creation philosophy is best encapsulated by the following words from Participant #6: "Part of what we were trying to do, was to interrupt the normal patterns of accumulation."

5.2.2.2 Devising the Elements of the Charter

With these broader economic intentions it then was determined, as was seen in section 5.2.1, that the trade associations of the industry – banking, long-term insurance, and short-term insurance and asset management – would negotiate the Financial Sector Charter with ABSIP, with government observing. The labour and community constituencies from NEDLAC were excluded. While the convening and negotiation process itself is covered in the following sections, what emerged from the interviews was the thinking on how the elements of the Charter would come together. As an initial reference point, the work of the BEE Commission as described in Chapter 2 provided some guidance, as noted by Participant #1, as did the nascent Mining Charter:

> *So this thing [Report of the BEE Commission] was published in 2001 which was round about Charter time, so this would have…also set out some of the key pillars. Participant #1*

> *Back then the only thing we had as reference was the Mining Charter and the petroleum liquid fuels charter, whose focus was, derived momentum from, the Employment Equity Act. Participant #3*

> *There needed to be some issues that were going to be very different, and amongst those we wanted to see the Financial Services sector take on different kinds of responsibilities. Participant #6*

> *We said that if we were serious about transformation, we needed to look at areas where the industry actually does its business, and that part of the business that has a significant impact on, particularly, black people's lives…so housing, infrastructure. Participant #15*

But there was a real concern that the manner in which the Charter would be developed would require some special considerations, given the role of the banking sector as an intermediary between the savers and borrowers in the economy. Further that the sector could be used to fund transformation in other parts of the economy:

> *The first issue that we needed to take account of was that the financial services sector is different to all the other sectors, and the key difference is that it has to finance BEE, and in the financing of BEE, the banks wouldn't be able to manage all of this. Participant #6, reflecting on the capital adequacy rules for banks*

> *It's a catalyst. And the capital....That's what banks are. You know why a bank is legitimate? Why a bank is the most powerful people in the country? Because they allocate capital. Capital changes things. Participant #12*

Aside from this key aspect of capital, different interview participants highlighted key features of the Charter that stood out for them:

We agreed then that we should write a voluntary charter, and we first had to start off arguing about what the different elements of the charter would be; there was no recipe. Participant #1

And that is why we ended up in the Financial Sector Charter with a broad array of other [elements]. Empowerment with respect to housing finance, agricultural finance, SME finance, transformational infrastructure. Participant #14

So how did we use the strength of the Financial Sector to affect transformation, would have been one broad objective. To effect transformation without destroying the sector. Participant #6

Especially on skills and on progression of [black] people to managerial positions and so those employment equity issues, those were things that, that were at the core of what we, we were looking at. [And] BEE funding, for small businesses. Participant #10

Some of the things that the Communist Party had raised was the whole issue about access, and you know, the number of ATMs in Alexandra as against Sandton, for instance. The amount of time people had to travel to actually transact at a bank. So then the access debate came in. Participant #15

In summary on the conceptualisation of the pillars, the interview participants who were involved in this work saw that the sector was different, and that there was an opportunity to utilise the sector's unique position in the economy to further enhance wider transformation efforts. This was eloquently put by one of the interviewees:

This is the ubiquitousness I guess of this sector and why the Financial Sector Charter was so defining in facilitating transformation and the plethora of charters that then came afterwards. Participant #3

5.2.2.3 Bringing the Negotiating Parties Together

This category – Convening – deals with the process of bringing together the negotiating parties at the start of and during the Charter development process and it includes the nodes of trust, mediation and collaboration.

From the responses set out below it has emerged that there was an intentional aspect (by government) to the manner in which this protracted period of convening was intended to unfold: 1) that would be different to how the Mining Charter came into being; 2) that there would be contestation over the principles and the targets; 3) but that ultimately this would be conducted by industry “insiders” who had some realistic sense of the boundaries of the “possible”; and 4) this combination would ultimately lead to a productive outcome, even if not all parties were completely satisfied with the end result:

> *It seemed at the time that constructing a series of closed loops within the Financial Services sector would be preferable to having some young public servant writing the dictates. Participant #6*

These “closed loops” represented the various parts of the industry – the trade associations, the black professionals from within the industry, with government on the periphery. The process however needed a high degree of leadership and management:

> *This whole thing was actually driven by a partnership between Jacko [Maree, Chairman of Banking Council], Kennedy [Bungane, Executive at ABSIP] and myself [as CEO of Banking Council]. Participant #16*

> *It was mainly Jacko [but] Trevor [Manuel, then Finance Minister] was hell of a supportive, because he could see that there was a genuine intent to make it something different. Participant #11*

> *They gave us a DDG at Treasury who is a fellow by the name of Lesetja Kganyago. To be the conduit between government and the industry to ensure that this process does take place, that it takes place in an orderly fashion, that it is true to the principle of the Financial Sector charter being a voluntary commitment, but fundamentally transforming the economy. Participant #3*

Yet even with industry insiders working together – people who were familiar with one another on a professional level, the working relationship took time to develop, particularly given it was less than ten years into South Africa’s democratic transition:

> *At the nub of South Africa’s problem… is that there’s a big trust deficit. Participant #18*

> *It was an element of trust. We had to go through quite a number of loops to be able to trust one another that we want to do this thing meaningfully. Participant #17*

It took a while, it took a while to get all the key stakeholders together and agreed to be a credible and legitimate set of parties to run with the process. Participant #3

But the interviews also revealed disagreements within constituencies themselves – both within the industry bodies and between government and its alliance partners:

There was a lot of disagreement within the banks and the insurance companies, everyone had their own view, there wasn't this wasn't like a unanimous thing, there were lots of people saying I don't know why we are going to do this, should we really do it, what's the benefit of doing it. Participant #1

And at some stage there was a stalemate and when there was the stalemate I remember I would speak with Jacko and them in the Banking Association and the Life Officers Association. Participant #14

Every single Tuesday morning, the Banking Council, the CEOs of the banks, Jacko corralled them: 'We will meet every single week to discuss where we are going'. Participant #16

I suppose there were political differences on this issue. I was happy to stare down the Communist Party and COSATU on this matter, to take them on the chin in advance. Participant #6

It was perhaps inevitable that the disagreements between the trade associations of the Financial Sector and ABSIP would result in deadlock on certain issues. When this took place government (which had been the observer of the process, not an active participant) stepped in to try to resolve the impasse:

I think Treasury played quite a good role in also sitting down with people like [ABSIP] and some of the labour people in particular, to say, look, guys, just understand that this isn't a South African issue. Globally, this is how the industry's structured from an ownership point of view, and so on. And there are other ways of doing this. Participant #15

Lesetja, from National Treasury… he would come to the meetings to try and be a mediator or, or at least a voice of reason sometimes …because you would get to a situation on some of these points where the banks or the Financial sector would have a strong view on something, ABSIP would have a strong view which was not diametrically opposed, but on a target, so now how do we move forward from here? Participant #1

So, it was quite conflictual…and you know, it's only through a lot of hard work and bilaterals and so on that we managed to say, hold on a second, let's just understand this industry a bit better. Participant #15

Yet at times even this was not enough, and professional mediation was required:

So we said then bring in Charles Nupin[9] *and Tefo Raditopole. Those are the two people then who would go around and helped to unblock the process when it got stuck. Participant #14*

We use used two mediators that came in to help us, at a point in time because it did become, you got into these situations, how do you solve this, and with Lesetja there National Treasury was not prepared to ever say 'we think the answer is x', they would say we have to try again or we have got to get more research done. Participant #1

Lastly, the process – however intensive and combative it may have been at times – also set the stage for a more collaborative relationship to develop between the various parties in the years ahead:

So I think my sense from the industry was collaborative; we're collaborative. We'll amend a little bit but we don't want to shoot ourselves in the foot. Participant #20

And then I think that it also, one of the objectives that I wanted to see, that it enabled us to offer a better platform to engage with the critical stakeholders they needed to engage with, including [government] but also labour and community. It enabled us to interact better in NEDLAC on financial issues. Participant #15

I think we mustn't underestimate the role that somebody like Trevor and people in Treasury played, because they managed to bring together a disparate group of people, the Communist Party, on the one extreme, and then you had business on the other. Participant #7

The government can't solve [these] problem[s] on its own and, therefore, we need active citizenship. In fact, it's elevated now that the current administration, where business is

[9] Charles Nupin was the first CEO of the Council for Conciliation, Mediation and Arbitration (CCMA) in South Africa; both Nupin and Raditopole worked as professional mediators on a variety of cases, including the Charter.

involved in employment creation, is involved in education, basic education. Is involved in small and medium enterprises. Is involved in higher education, working in collaboration with other social partners. Participant #8

The success of the Convening approach is perhaps best summarised with the following words:

We could have walked, in theory we could have just walked away, and said this is too difficult and we don't like the answers that are emerging. [But] I think that everyone, right from the beginning there was an acceptance that we should try and do something. Participant #1

5.2.2.4 The Features of the Charter Negotiations

This category – Negotiating features – highlights a number of unusual "insider" revelations by various interview participants concerning the forces at play in the negotiation process. As in any negotiation there were power dynamics involved between the industry associations and ABSIP, and between government and industry, particularly as the Financial Services sector was (and remains) highly regulated:

So it was like the industry negotiating with ABSIP and government being part of that process on the [side]. Participant #14

But frankly they [industry] recognised the power that they didn't have and the power that we had. And that is I think one of those rare but special things about being South Africans…This was never about anyone's career or anyone's own ability to arm twist. It was a battle of ideas - we had a shared vision - we had to talk [to] each other across to find each other when we missed each other and there were times when we terribly missed each other. Participant #3

Inevitably there was the need for concessions on both sides, and from government, in order to safeguard the financial stability of the sector and indeed the wider South African economy, concessions (as discussed in the earlier section) that required departures from the expectations of government's labour and community partners:

And as we got to the end there were trade-offs, ok we will concede to x if you concede the ownership target should be y. Participant #1

But what was the hard nut to crack in this industry was how do you deal with ownership? And, you know in banking and Financial Services, capital is everything. So, it was a tough, tough nut to crack. Participant #12

In order to get the Financial Services sector to do all of the other things, like invest in townships and avail money for BEE, other developments and so on, there needed to be a bit of give in the agreement [Charter]. So we [government] were prepared to drop the ownership targets … in order to have capital available to do all of these things, because if we maintain the same ownership target levels [as Mining] in an environment where the [SARB] rules don't allow Financial Services companies to pay their own investors, and given the scale of the issues and capital scarcity, it seemed like a more efficient approach to drop the equity targets and drive a hard bargain on the outputs. Participant #6.

In the end, the negotiation process lasted for most of 2003, with some of the final details on ownership agreed the night before signing. Reflecting on the outcome, the following observations were made:

As always with these things by the time we got to the end nobody was particularly happy, they didn't feel it was aggressive enough. Participant #1

I think the negotiations were robust. The reason I think it worked was because these people were serious about social cohesion, actually. Participant #7

5.2.2.5 The Interests of Stakeholder Groups

The final category under the heading of Genesis and Formulation of the Financial Sector Charter concerns the perspectives of the interviewees on the various stakeholders they interacted with – the people and groups with direct and indirect interests in the transformation of the Financial Sector through the Charter – as well as their own particular interests.

The first area to be looked at is who the various stakeholder groupings were, and why they were cast in particular roles during this process:

All the big banks participated. The commitments made would impact the banks on all levels so participation ensured that outcomes would be rational even if targets were stretched. Participant #4

Our problem was to figure out who do we negotiate with, because there wasn't a natural body to negotiate with…but somehow these call it the different black interest groups recommend that we should negotiate with ABSIP… It then quickly blossomed into the Financial sector, as opposed to banks, and there was this sense that if we are going to do this we have to get the pension funds the asset managers, the life insurers the short term insurers all on sides. Participant #1

Yes, those were the three main ones …[l]ong-term insurers, short-term insurers and banks. Participant #17

ABSIP was tasked…to negotiate on behalf of black industry, black associations and so forth. And the point of it was that of the black business formations and professional formations, ABSIP was the only one that really understood the sector because it was made of people from within the sector. Participant #14

Importantly, you had black professionals in ABSIP, and you had enough of them, you had a critical mass of them, enough inside the institutions, and also organised in ABSIP, for them to be good interlocutors. People who had a…vision about the future, knew enough about financial services to have proper conversations with leaders, and could hold their own. Participant #7

But SASBO [the financial sector union], because they had a foot in the door at the time, they were engaged [with] ABSIP even before the negotiations, because we were not negotiating, as such, as a union. But we were supporting ABSIP. Participant #10

Trevor Manuel, Maria [Ramos] and Lesetja [Kganyago] decided that unlike mining and liquid fuels not to themselves be in the negotiating table but sit behind the negotiating table because they could help us find each other, they could come in, they could arbitrate, you know they retained the right to make an intervention. Participant #3

Thus the primary role players were the three trade associations as noted above, ABSIP (representing a range of black business and professional interests, and the finance labour union SASBO) and government (with its indirect associations with labour and community groups). The question that follows this is what did the various stakeholder groups seek to achieve from the Charter process?

The fact that different constituencies had different things driving them, I think was a challenge. What do I mean? So who has the most to lose and, what, who is delivering? It was the Financial Sector. Participant #7

A bit like the Russians: as economic freedom came, you wanted to create a black wealthy, elite black class. Well we [industry] didn't want to, but that's what they wanted, and they succeeded. Participant #11

So at that time there was a strong view under the Mbeki government that we should have you know, black strategic partners. The backlash against that came later, but it was very much promoted in [the BEE Commission Report]. Participant #1

We'd watched Mzi [Khumalo] buy and sell out of Harmony Gold. And that was once empowered always empowered?….How do you do this in a sustainable fashion? ... And how do you do it in a way that mobilises the financial resources of the Financial sector. Participant #12

Also looking at the ownership issue. We said, look, employees should own a stake in the company. Participant #10

So things like housing, infrastructure, access [to finance], those were put firmly on the table by [industry]….I think ownership, human resources and the demographics and so on, we started talking about it, but I think the drive [for those pillars] came from ABSIP. Participant #15

But it gave us a very good opportunity, because in the Treasury for the first time then it allowed…us to sort of see what the real [transformation] challenges were and where the weaknesses were. Participant #17

Participant #17 then delved further into some of the specific interests that lay behind the various ABSIP constituencies:

ABSIP was really, really concerned about employment equity. Whereas the Black Business Council they were really interested in ownership. Cyril [Ramaphosa] and them, they were really interested in funding also but they wanted ownership. And young black business people who were really interested in funding: young black people in their late 30s, early 40s, who wanted to work and have black consulting businesses.…They wanted procurement and they wanted to do deals outside of the Financial sector and they wanted funding [for this]. Participant #17

5.2.2.6 Summary Observations on the Charter's Genesis and Formulation

From the analysis presented in this section on the five nodes that describe the Financial Sector's Genesis and Formulation it is clear that negotiating the Charter's various dimensions and associated targets was a lengthy, complex undertaking involving senior industry, government and black business leaders:

I was then empowered to take that approach, and it was a different approach, to Cabinet. When it was supported at Cabinet, we were able to give feedback and the announcement *of the entire structure and approach was done at the National Treasury. And that was a signal about government support for an approach [that] was different. Participant #6*

This approach, different to what was previously adopted by government, allowed for intense but meaningful contestation between knowledgeable parties working largely without a playbook. This process represents a novel (at the time) example of convening, one that may not have completely satisfied all the parties but had, at its heart, a goal to begin to change the patterns of wealth accumulation in South Africa after centuries of economic marginalisation for the majority of black citizens:

The reason why this worked out was that you had a combination of good economic environment, policymakers were quite sophisticated in their thinking, and they could have credibility in business, but also credibility in the political arena. Participant #7

Having concluded the analysis of the Conceptualisation phase of the Financial Sector Charter, leading to its signature in late 2003, the Application phase of the Charter's existence will be examined in the next section.

5.3 Application Phase

With the Financial Sector Charter signed by the main trade associations in the sector and ABSIP in October 2003, and with the apparent blessing of government, the focus then shifted to the implementation of the Charter's various pillars by the companies operating in the sector. From an intensive, year-long collaborative process, coming after a three-year long period of pressure, the focus switched to a period of application within companies. This section of the Findings will cover the period from early 2004 to 2018; it includes two official reviews of the Charter, the setting up and subsequent unlocking of many of the ownership transactions[10] conducted by companies, and the Parliamentary review of transformation, in the sector.

[10] See Chapter 2 and Annexure 7

5.3.1 Features of the Financial Sector Charter

This section looks at three nodes that are concerned with a number of key features of the Charter both as a set of targets and as a process[11]. Firstly, the views of various interview participants on the process of embedding the Charter pillars into their organisations; secondly the deliberate design and use of competition between companies to drive the benefits of empowerment; and thirdly, observations relating to the complexity of integrating the Charter into the existing business models of a highly regulated sector of the economy.

5.3.1.1 Embedding the Pillars of the Charter into Companies

The perspectives presented in this section are from those who were, or are still, in senior leadership positions in the Financial Services industry, as the task of bringing the Charter to life within their organisations fell to them:

> *There was an intellectual integrity around this; the need for transformation and the sense that it made that we can't be a business that is only serving 10% of the population, and we can't fully connect. If our demographics are so skewed that we can't fully engage with the full population, how can we expect our client base to? Participant #19*

> *And I remember a lot of the discussions taking place then, sitting as a board member, around how the company, or the group, needed to embrace this whole concept of transformation. Participant #8*

> *We formed a Transformation Committee and I chaired it to start with, and it always remained chaired by someone senior for a long time .... And that was driven hard ... by a senior person for five years and then ...it sort of became more embedded in the organisation. Participant #1*

> *We weren't really effective in the earlier years [but] you knew you had to change, you knew you were reporting pretty shitty numbers in terms of achieving the kind of change you had to make. Participant #11*

> *And I think that's what the Charter represented: let's get out of the clouds, guys. Let's agree things that we can do. Let's ... try and balance what the priorities are. Let's set the targets. And ... let's go forward. Participant #12*

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[11] The key elements or pillars of the original Financial Sector Charter are listed in Annexure 2, together with the equivalent categories in the Generic Codes and the more recent Financial Sector Code

The Charter … had spectacular momentum in the first five years which was from 2003 to 2008. Participant #3

5.3.1.2 The Use of Competition to Further the Aims of the Charter

An unexpected finding was the deliberate intention (by government and ABSIP) to apply competitive principles to the Financial Sector Charter and the recognition by industry that transforming their businesses would secure a competitive advantage for their companies:

I could get up and say that Jacko [Standard Bank CEO] would not allow Steve Booysen, who was the ABSA CEO, or Steven Kosseff [Investec CEO], or Sizwe, who was at First Rand, and I think Tom Boardman was at Nedbank, none of them would allow their competitors to get away with less than they were doing…I think, it may have been there, but the big accounts with banks in those days was managing the Provincial treasury accounts. So the scores attained by financial services companies was pre-emptive of being able to secure those fairly lucrative government contracts. Participant #6

It also made it a competitive thing: it made the target important but frankly it [the scorecards] made the system self-reinforcing; if you underperformed your competitors you would be found out. Competition. Participant #3

Competition is ultimately good for the sector. Because, I mean, what happens when more participants enter an industry, you get all the positive things coming out. You get costs coming down, you get more innovation. Participant #13

The fact that I need to transform is about us being globally competitive. Participant #7

The crowding in of capital behind transformation and empowerment and small black business and entrepreneurs…it was so powerful. Participant #12

Thus it is clear from the executives interviewed that their companies were aware at a senior level that transforming their organisations by implementing the Charter comprehensively would create business and ultimately financial benefits for their organisations and stakeholders. This awareness is well articulated, in conclusion, in the following statement:

Compliance [with the Charter] was looked at in the context of the entity, and how it looks in comparison to our other peers in the sector. Because the extent to which different companies may have approached this differently meant that you either had a benefit from a competitive standpoint, or you had a disadvantage from a competitive standpoint. So there was a lot of that kind of discussion saying, well, you know, how do we stack up? And…[are] we transforming enough? Participant #8

5.3.1.3 The complexities of integrating the Charter in a highly regulated industry

Globally, banking (and to a less extent, insurance) is one of the most highly regulated industries. The manner in which the South African financial system is regulated has been briefly explored in Chapter 2. The findings indicate a concern amongst government interviewees (in National Treasury) of the potentially negative impact of the Charter given the desire of the sector to be globally competitive, operating under the same global regulatory capital standards for capital yet simultaneously seeking to alter the domestic operating dynamics of the sector through the implementation of the Charter:

> *Whichever way you look at it, whether it is real borrowers or it's people who are looking for shareholding, just take it that you are channelling from the savers to the deficit sectors of the economy....So it was like if we get this one right we could actually effect fundamental change in the South African economy. But it is also as we were going through and navigating these things it is one of the most highly regulated sectors. And the regulation is not just domestic, it's international, right…we had to take into account our obligations in terms of international commitments and at the same time be cognisant of the transformation journey that we had to embark on as South Africans. Participant #14*

> *The key challenges at the time, obviously transformation was one of them, but also reintegration of the financial system in South Africa to the global financial system. So, for instance, our membership to the Basel Committee, our membership to the payment system globally, our integration to the G20, to the BRICS and things like that … [T]he banks were …concerned about being too uncompetitive because of the high capital standards that we imposed on [them]. Participant #17*

> *I mean, dealing with empowerment in the financial services [companies] that are in SA, especially the banking sector, is far more complex than in the other parts of the system. So it [the Charter] struck all the, call them, delicate balances. Participant #9*

Concluding on the findings on the Charter Features, the interviews with these participants have highlighted that there were both challenges and opportunities to business in adopting the Charter and embedding it into their operations, and that the competitive nature of the industry was deliberately harnessed to seek better outcomes (from an economic transformation perspective) for the entire economy. This had to happen against a backdrop of international financial regulation that South Africa had committed to adopt, in an effort to be regarded as a globally competitive investment destination.

5.3.2 Objectives and Aspirations

This section looks at the reflections of interviewees on their hopes and aspirations at the time the Financial Sector Charter was adopted, launched and implemented. The category here has been coded as Objectives and virtually all the interviewees had recollections on this subject. As observed by participant #3: "That vision statement will show you quite a lot - a few lines which captured quite a lot of our hopes and dreams." It was partly for this reason the preamble to the Financial Sector Charter is quoted at the start of the thesis.

5.3.2.1 Aspirations – the Potential of the Charter

In this section the focus is on what the interview participants hoped the Financial Sector Charter would achieve, broadly for South African society and where applicable for their organisations or their particular constituency at the time. The first area covers broader societal aspirations:

> *It was a real catalyst charter. And if I…look at the hopes, it would have been that we help to drive economic liberation to align to the big story of political emancipation. Participant #12*

> *This sector…could play a very important role in the South African economy because this is how I conceptualised it: it said the Financial Sector is to a modern economy what the heart is to the body of a mammal. The heart stops working, the mammal collapses. Oxygenated and deoxygenated blood – that's what it does - and the Financial Sector plays the role of intermediating between the savers and the borrowers. Participant #14*

> *It would probably be to use the gearing that we have on South Africa's economics to drive a progressive agenda. Participant #18*

> *It [the Charter] spoke about fundamental transformation but in a manner that is commercially sustainable for the sector and in a manner that is broad-based and such that it touches elements not until then considered as being germane to transformation. And to ensure that ultimately you have sector that can be truly world class yet relevant in South Africa. Participant #3*

> *I had hoped that this would, this compact would be one that would last forever. I mean, I was wrong in that [because], and it's a lesson, it's a life lesson for all of us, a societal change is a permanent thing, it doesn't happen in one shot. Participant #7*

> *What the Charter really...you know, I was hoping it would achieve, is to address the fundamental objectives of transformation. And inequality in the country. And that's what the charters were meant to achieve. Participant #8*

And bear in mind, there was a good, call it, political / social climate in the country. I would even call it…socioeconomic solidarity. In other words, people felt that the democratic project was underway, it was working. And no one wanted to scuttle it. Participant #9

Then there were specific, industry-level aspirations alluded to by various interviewees:

There were a couple of [aims]: how did we use the strength of the financial sector to effect transformation, would have been one broad objective. To effect transformation without destroying the sector. Could you in the process allow for the creation of new kinds of institutions? And then always a very important question, how would we finance specialised societal needs, like mortgages for poor and middle income families? Participant #6

Look, sustainability is the big thing, right, so obviously the most important thing for sustainability is surplus of profits. We spoke about [the owners who] want to invest in South Africa in social objectives. But when they do, they're better off, right, because if the population's better educated, South Africa grows faster. Their assets grow faster. The population's children are looked after and are more productive. Their businesses go up much more. Participant #20

[The aim was] more accountability to broader societal stakeholders than just shareholders. Participant #4

Lastly, a number of interviewees raised their hopes on the issue of changing the demographics of the companies in the sector:

The issue of skills was a big issue in terms of developing the workers. Creating pool of workers to move up the ladder.... the implementation of…employment equity. Participant #10

I think what particularly in the financial sector we needed to see …increased black participation across the board, right?....So the demographic profile of the industry needed to desperately change. Because it's a highly intellectual industry, and the demographic profile was lopsided. Participant #13

But I was really looking at a significantly transformed Financial sector, where at least half of the decision makers in the financial companies would be black, where they would be a few CEOs of some of the black groups, also of the financial groups. Participant #17

So I personally would have said the objective would be to have our senior ranks and all the others representative of South Africa's demographic. Participant #18

5.3.2.2 Concerns and Fears

While there were aspirations for what the Charter might be capable of achieving, there were also some expressions of anxiety, both from government and from industry representatives interviewed:

> *There were obviously all the fears expressed, which have proved to be well founded: will once empowered always empowered survive, because it was pretty clear in the Charter but it wasn't … completely explicit. Participant #1*

> *I was a regulator, so I know that if you do that you are seriously devaluing the regulatory capital that is required by that bank. And remember, the regulatory capital is only there to safeguard the depositors. So [the Finance Minister] was worrying a lot about whether he's not placing a significant risk into the financial system by doing this kind of thing. Participant #17*

> *Just think about the extremes you've got in that discussion. You've got the sector called the community, which included a range of people, civic organisations, right across to communists, who would believe in nationalising the commanding heights of the economy, right across to conservative bankers. And the obstacle is how do you get these people to agree? Participant #7*

> *The big Mining Charter leak which spooked the markets, it wiped out just over R50bn if I am not mistaken. And those of us who felt that the manner in which the Mining Charter had been handled, or mishandled, and the damage it had inflicted on not just on the JSE but on the [mining] industry itself, if such were to eventuate for the Financial sector, you know, it would just not be in position to recover that fast. Participant #3*

5.3.2.3 Concluding thoughts on Objectives

What the responses from this broad cross-section of interview participants has revealed is, despite some reservations and fears, a sense of opportunity to effect meaningful transformation and a deep commitment to see this change effected through the application of the Charter, not only on the Financial Services sector but also – through a catalytic effect – on other sectors of the South African economy. Summing this up, Participant #7 commented: "And then there were also clearly people who are committed to social solidarity. For me, the Charter is actually an expression of exactly that."

The following section of this Findings chapter covers the third phase of the existence of the Financial Sector Charter – the Assessment and Redesign.

5.4 Assessment and Redesign

The Financial Sector Charter witnessed a number of significant milestones in the period from 2004 to 2018. The 2003 signatories had agreed to a review after five years of operation and as noted by Participants #3 and #10, the period from 2003 to 2008 was a time of significant energy as companies in the sector looked to embed the pillars of the Charter and also implement their equity ownership transactions. The global financial crisis of 2008/9 had come and gone, and the Charter, which was supposed to be gazetted by government under the B-BBEE Act, was finally gazetted in 2012, once the first Charter review process (which took three years) had been concluded. From late 2014 and into 2015, many of the ownership transactions reached the expiry of their ten-year lock-in periods, which saw beneficiaries of these transactions being able to realise the value inherent in the schemes[12]. The industry, in particular the banking industry, came under increased public scrutiny in the period 2016-2018, as noted in Chapter 2, culminating in a review into the extent of transformation in the industry by the South African Parliament (Carrim, 2017).

With these background events in mind, this section of the Findings sets out the reflections of the interview participants on the successes, the issues and consequences of the seventeen-year period of the Financial Sector Charter and Codes. Thirdly, and finally, it describes the views of the participants on the role and future directions for the industry as part of the wider, national project of economic transformation: South Africa's own particular grand challenge.

[12] For a full account of these and other JSE listed company B-BBEE deals see Theobald et al., 2015

5.4.1 The Charter's Successes

This section looks at two nodes that are concerned with the perceived successes of the Financial Sector Charter through the eyes of the interview participants, reflecting back on the years of its implementation (from 2004 to 2018) across the FS industry in South Africa. These categories are coded as Achievements and Innovations.

5.4.1.1 Achievements

A number of the interview participants highlighted various features of the Charter itself and aspects of how the pillars of the Charter were implemented as Achievements – elements or features that stood out for them as positive. This observed detail would be in addition to the "hard" progress as measured by the independently verified B-BBEE scorecards published by each company in the sector (and more broadly by many companies in the South African economy), which as described in the Chapter 2 and Annexure 6, does show a marked progression from 2004/5 (off an admittedly low base) through to 2018:

> *A very open and transparent consultative process in the country that may have been lacking at the time that we started with the Charter process. Participant #8*

> *I would score it a B-. There has been measurable progress in every single aspect of the Charter. Participant #4*

> *That when you get a reasonable outcome from a process, like what we got, as a country, we should celebrate it actually. Participant #9*

> *If you consider that the transformation in the sector started at a low base on access, across the board, a lot was achieved in that first five years, compared to the second five years. And simply because they were starting from a low base. Participant #10*

> *I think, on things like affirmative action, I think it was very good for the banking industry to have gone through the Charter negotiation because it got the industry to confront what affirmative action actually means. Participant #7*

> *My own sense, in broad general terms, in management, we aren't doing too badly. When I look at this company [insurer] the CEO and all of our client facing businesses have black CEOs, each one of them. That's a significant achievement. When these discussions happened [in 2003], it may not have been there. Participant #6*

> *Frankly we made significant strides. We reached much further than, now that I look back and think was pragmatic for us to do. Participant #3*

5.4.1.2 Innovations

Considering the observation made by Participant #13, highlighted earlier in Section 5.3.2.1, that Financial Services is a "knowledge intensive" industry and that competitive forces were used to drive the implementation of the Charter, it was perhaps inevitable that innovations would emerge as a finding. Innovation both in the concept of and the targets built into the Charter pillars, and in the manner in which companies sought to implement them. Given the breadth of these pillars (see Annexure 2) there is not scope to conduct a detailed analysis of these areas in this thesis. However, the areas of Innovation highlighted by the interview participants are set out below, continuing from the observation in section 5.2.2.3 that it was preferable (for National Treasury) to have the industry associations develop the Charter with industry insiders from ABSIP:

> *These were compelling social experiments that we were undertaking. And they had a lot of consensus behind them. And people were saying, do you think that's possible? Because we were scorecarding, effectively… We had bastardised the balance scorecard. And we were applying [that] to our economy. And the transformation of our country. It was a fantastic experiment. Participant #12*

> *So [the Charter development] took us to very different areas of work because the paradigm around transformation had been so different here. Nobody had done that work…we looked at BEE transactions, agriculture, low income housing, SME's, we looked at empowerment financing. Participant #3*

> *I think South Africa is incredibly innovative whereas internationally it was very much these are the deals you do and how you do them and we can do them best whereas here there was a lot more … actual smarts and innovation. Participant #5*

> *We've added in the whole lot of new things that is very specific to our sector, and I think if we get this black business growth funding element right it would have a huge impact on the industrialisation of the economy in a very positive way. Participant #13*

In terms of the product level innovations that were developed around the concept of Access to Financial Services – a key charge levelled at the industry by the FSCC in the early 2000s –

entry level banking and insurance products were created, together with more bespoke financing of established businesses and national infrastructure:

> *The products within the industries, both, the whole industry, there were products that never existed for the lower end of the market. Participant #10*

> *To have 4 million Mzanzi [low cost entry bank] accounts by end of 2008, was touching that [unserved] base. But to your point, you then realise it is actually [now in 2018] 20 million and they don't just want a traditional account; [they want] a different product innovation to get them to the next wing of the economy. Participant #3*

> *The other thing we needed to bed down was that we needed to develop clear criteria of the type of infrastructure that would be funded through this process. So it had to be infrastructure that primarily benefited black people. So it wasn't roads in Sandton. And so we had a series of criteria that said that so much percentage should be in rural areas, so much percentage should be in roads. Participant #15*

> *So all the international banks and the international parties that play in the South African Financial Services sector, nowhere in the world in the 160 offices globally, [do] they do Ownership transactions anywhere in those regions. So by creating the Equity equivalent*[13] *it gives them an opportunity to play in our economy, whilst at the same time contribute towards the economy. Participant #13*

> *So suddenly now, the front and centre piece wasn't just to benefit some individual privately, but it was to create this perpetual [ownership] fund which would be dedicated to actively funding the next generation of entrepreneurs. Participant #19*

> *So the vision was ... we're going to find the subset of people who could be really impactful entrepreneurs [and fund them]. Participant #18*

In concluding on the concept of Innovation, the words of Participant #3 encapsulate the responses recorded above: "You were really going into new grounds here and changing paradigms about what empowerment and transformation meant."

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[13] Equity equivalents enable a foreign owned FS company to contribute to transformation for example by funding tertiary education or lending to black business to an equivalent amount of a 10% stake of the equity of their local operation

Participants were also asked their views on whether the promise of the Charter had been fulfilled. The following responses as regards this “softer” type of success, were recorded:

> *Has it [the promise of the Charter] been fulfilled? I don't think so. Have we made significant progress? Absolutely. Participant #15*

> *Broad brush view yes - when you have a look at the only data that I had, the senior execs of the bank who were black and you have a look at their wealth, well you know some of them it’s breath-taking. So you might say for them, certainly it has worked, so I would presume all the way down through all the levels it started to make up for the prior years when those people were not permitted to own their own houses and build their own capital. Participant #2*

> *I don’t think people were conscious enough of how big a factor [bridging cultural divides] plays in transformation, which is partly why I think that maybe we are sitting asking how effective have we been in these organisations with transformation? I don’t know but I am not sure we have been overly effective. Participant #5*

> *It depends on what you define as success. So if targets are a measure of success, the most appropriate target is to say I want to get to the country’s demographics, like, yesterday, on everything, employee, employment equity, transformational infrastructure, shareholding, etcetera. That’s the one thought, but the reality is that until there is a fair allocation, fair being representative of demographics, a fair allocation of society’s resources, infrastructure, benefits and burdens, it’s hard to see how you get to, for example, employment equity that reflects a country’s demographics. Participant #7*

> *[S]adly, for business this was compliance. We have got to give away 2% of our net profits after tax, and so it's about compliance. Participant #16*

In concluding on this category of Successes, and considering the above remarks from Participants #5, #7 and#16, it is clear that while many of the measures of success (quantitative via B-BBEE scorecards and the more qualitative responses listed in this section) hinge on the following question posed by Participant #15: “On what basis do we actually answer the question, has [the promise] been fulfilled?” There is suggestion from the responses of these three interviewees (#5, #7 and #15) that for all the apparent achievements and innovations of the Charter (and its successor the FS Codes), there is much more to be done. This is a matter that will be explored in the following section on Issues and Consequences.

5.4.2 Issues and Consequences arising from the Charter

There are five nodes arising from the analysis of the interview responses that relate to the category of Issues and Consequences: 1) Contestation within government and its alliance partners; 2) the fixation with ownership; 3) other obstacles to implementation; 4) unintended consequences; and 5) unresolved issues.

5.4.2.1 Contestation within Government

The first category in this section of the Findings reveals that despite the successful formulation of the Charter and its transformation targets (in particular the way in which it was developed as a "different approach"), there were elements within government and its alliance partners who did not agree with the way in which National Treasury had managed the process:

> *I mean 2008 we thought we were just about to do this thing and then Mbeki was removed and then the chaps in the DTI they just sat on this thing and wouldn't gazette the [Charter] ... I think it was wrong to concentrate the power to gazette the charters with the DTI because the ministers in the different sectors should have a better understanding of their sectors than the DTI does….The charter should be gazetted by the relevant minister with the concurrence of the DTI rather than the minister asking the DTI can you please gazette this thing. Participant #14*

> *Some of that was definitely driven by these factions in the ANC, you know that the people had benefited from that bunch of empowerment deals were call it "Mbeki-ites" and then along comes let's call it the "Zuma-ites" and they didn't participate so now we had better find our own set of deals. Participant #1*

> *The interesting thing is the establishment ANC. It's always rejected narrow BEE, and yet they've always implemented it. At a huge cost to business. Participant #22*

> *That was those three to four years that actually went to waste. And unfortunately, DTI didn't show much leadership in that time. And DTI, was … from the side pushing for the ownership targets to go up. Participant #15*

> *Us as the [National] Treasury, we were not trusted at the time. Participant #17*

> *I was told a few years later about the debate that went on in Cabinet around how they [National Treasury] had allowed the tail to wag the dog, because DTI and all the other government departments had to go back and [relook] at their scorecard. … I blame it on*

an overreach by government via DTI, to try and run this as a government process. Participant #3

You talk about the fact that it took long to gazette; that I think reflects an ideological cleavage amongst government departments, to be frank. Because you had the people coming from the finance part of things, versus DTI, and you always had to have agreement between Minster of Finance and Minister of DTI. Participant #7

The reason for this “ideological” difference of opinion between National Treasury and DTI as alluded to was expressed in some detail by Participant #6:

There was a lot of pushback from the Communist Party and COSATU against the drop in the ownership targets.

I don't know precisely, I mean, they could never quite explain what it was that they were after. But what happened then was what we needed to do with the Financial Sector Charter was to get it gazetted as a sector charter within the framework of the B-BBEE [Act] but carrying a series of unique features.

I needed the Minister of Trade and Industry, to be persuaded that he needed to gazette, and we would meet, and he’d agree, and then his officials would buckle. Participant #6

The Charter was eventually gazetted in 2012, some eight years after it had been adopted by the industry, and then in the style of the DTI’s Codes of Good Practice. This difference also played out in the early years of the Council, which was meant to report on progress with the achievement of the Charter’s targets and then administer the consultative process to review the targets:

The Council… was supposed to bring everyone’s positions together to create consolidated reporting and review. And it seems never to have fulfilled that vision or that objective entirely. Participant #7

There were fundamental disagreements in that stakeholder group called the Charter Council. Participant #8

I think it took [time] to renegotiate the new measures. And then it set in trend this unending renegotiation and resetting. Participant #12

We had to have that Charter Council that would oversee everything...it was also having people in it who…had other interests other than just fundamental transformation of the sector in mind…I mean if you have a Communist Party that would talk about fighting against financialisation of the economy… When we would like to transform the sector *and grow the sector, a fight against financialisation of the economy means you must constrain the growth of the sector. Participant #14*

I can recall the arguments, because it seemed bizarre, that these two organisations [SACP and COSATU] were arguing for the creation of a new class of capitalists, without capital. Participant #6

It is therefore evident that the contestations within government over the "concessions" granted by National Treasury to the Financial Services sector through the Charter's targets played out both between government departments and in the functioning of the Council. This evidently hobbled the momentum gained during Charter negotiation period, an issue that is addressed again later on in section 5.4.2.3 below.

5.4.2.2 The Constant Focus on Ownership

The second node in this section of the Issues and Consequences findings considers one of the more dominant narratives around B-BBEE in South Africa generally, namely the enduring focus by commentators, the media and policy makers on the ownership element of transformation, bearing in mind there are six other elements in the Financial Sector Codes and four other pillars in the Generic Codes. In the original FS Charter (see Annexure 2) the ownership element was relegated towards the end; under the DTI Codes it is (significantly) placed first. The following observations from several interview participants confirmed this narrative, specifically insofar as the Financial Services industry is concerned:

You know the debate around the Mining Charter was one around ownership [whereas] this became the first charter to have a scorecard; a scorecard that did not have ownership as the alpha and omega of transformation; this was a … hugely controversial thing. Participant #3

[There] was always a view that significant and close to a majority should be in black hands. We then recognised … industry's [equity] is primarily owned by institutions. The Reserve Bank came in and said, if you're a shareholder of note, you need deep pockets and so on. So I think even ABSIP then began to see the limitations of that. But ownership was always a long debate. [Labour and the SACP] was pushing a political line that said that there is a majority of black people in this country, and there must be significant ownership by black people. That's what transformation is about, in their view. Participant #15

You didn't want to deploy all the resources of the Financial Sector [funding direct ownership deals] within the sector itself ...And that is why we ended up with a broad array of other empowerment [pillars]: empowerment with respect to housing finance, agricultural finance, SME finance, other infrastructure funding. The DTI thing [CoGP] that Government adopted it meant that Government was giving away commitments from the sector just because of the obsession with ownership. Participant #14

Yet it seems that for a period between 2004 and 2008 the Labour and Community constituency (along with ABSIP, as noted above) had accepted that lower ownership targets for the sector were a suitable quid pro quo for the industry to assume other responsibilities under the Charter through the other pillars:

Actually, in the first five years, when the Community and Labour constituencies started sitting on the Charter Council, it was interesting. On ownership their immediate thing was, well, it's 10% direct and 15% indirect [equals] 25% ownership, is too much. You should divert some of these funds to the broader base [of empowerment initiatives]. Participant #15

Echoing this, as was noted by some interviewees, the real value in empowerment did not lie with ownership (a point alluded to by Participants #3, #14 and #15 above) – it actually arose by implementing the other pillars successfully, although these would, by definition, take time to progress:

[Labour] should be concentrating on what sort of management positions we have, how are we actually financing low-income housing, how are we financing black SMEs, because that's where real empowerment happens. Participant #15

Making progress on Empowerment Financing, making progress on your Employment Equity targets, these are gradual things. Participant #1

Lastly, there is an emerging view from a group of the interviewees that perhaps the ownership debate has become a distraction (because it will not be resolved to the satisfaction of all parties) and it may be time to change the debate:

I just don't think this has been overly effective in redistributing wealth. Participant #5

The 10% direct, and indirect, [shareholding targets], there is still a debate about whether that was enough. The once empowered, always empowered debate. And, again, I've just accepted that that is not a debate that will close, it's going to be around for forever. Participant #7

> *[We] actually don't care about black ownership. So [the other pillars] those are the sort of things that we're looking for as opposed to just black ownership, black owned, black board, black this, black that. No. We're looking at economic growth policies that takes everything, everybody with on that path, as opposed to isolated incidences of creating concentrated wealth. Participant #13*

In concluding on these observations by interview participants, the argument against this focus on a single dimension of the charters is well made in this comment by Participant #14:

> *The multi-dimensional nature, the broadness of empowerment had to do with more than just saying we need a broad-based ownership. The broad empowerment [concept] had to deal with key issues in the South African economy that needed the Financial Sector's commitment. Participant #14.*

Considering these observations, there is an apparent link between this focus on ownership and the preceding findings on Policy Contestation, a link that will be examined in the Discussion chapter that follows. Nevertheless, these debates represented serious obstacles to the ability of the Charter to evolve (as initial targets were being met or proved to be misdirected). What then are the other obstacles that arose in the pursuit of the Charter's aims?

5.4.2.3 Other Obstacles

The third node under the banner of Issues and Consequences refers to the matters identified by the interview participants as Obstacles, matters ranging from the process of developing the Charter itself to implementation issues. The first series of interview responses deals with achieving the various targets set for each of the pillars, with those such as Employment Equity flagged as difficult to reach:

> *The other big debate was human resources, and the demographics of the organisations, and we always put on the table that people just aren't available, skills aren't there and so on, and we needed to be reasonable with our targets. Participant #15*

> *The second issue was how to get more black executives into the sector…without being seen as token blacks in those positions. Participant #10*

> *It was easier to transform [our] back office. It was impossible for us to transform the sales force, unless you started getting into the low end of the market and employing a lot of black agents to go and do simple, basic life insurance. Participant #11*

> *Well, the availability of skills amongst black people was suddenly a big issue because if you take a bank, and you say, what kind of skills do you need to employ to grow your business. You need actuaries, you need accountants, you need people with financial maths, or analysts. Participant #8*

> *The elephant in the room on transformation I think across financial services is that as an industry, we make much less progress on transforming top leadership than what any of us expected ten years ago. Participant #18*

> *The access [to financial services] was always tough; empowerment financing was fully drafted by the banks, so insurers struggled a little bit. Participant #20*

> *So, in a way, you can put the opposite, where people tend to see themselves as potential losers from transformation. And to try to protect vested interests, let's lose less from this process. Participant #9*

> *Procurement decisions in our sector now are largely driven in three areas, which is B-BBEE [rating], price, and ability to deliver the service… So you could choose not to comply but there would be a significant business disadvantage. Participant #13.*

> *The scorecard doesn't encourage very long-term behaviour. It encourages tactical optimisation. Participant #18*

The perspectives on the Obstacles encountered reveals that the aspirational (and ground breaking) nature of the pillars developed in the Charter and the specific targets attached to each pillar then encountered the cold reality of implementation, implementation across large companies where the spirit and enthusiasm of the executives who led the formation of the Charter may have been less evident. Perhaps this is one reason why the Parliamentary report noted that progress with transformation by companies across the sector had been "mixed" (Carrim, 2017). But were there other unintended consequences arising from the Charter?

5.4.2.4 Unintended Consequences

The fourth node in this section on Issues and Consequences describes the observations of interview participants on the outcomes of the Financial Sector Charter that they believed to be less than optimal. The first of these relates to how the industry, as proponents of the Charter, lost the positive narrative about its potential and realised benefits:

> *So we didn't end up with the right narrative, despite broadly having achieved the targets that were set. Participant #1*

> *The fact of the matter is South African business was involved...in addressing social problems in the country and legacies of our past – we were. Maybe we're not saying enough about it. Participant #8*

> *Business should be saying we understand the imperatives of transformation. You are in South Africa, you're in a constitutional democracy. We understand the history of this country and we are now setting course to build the future and how would the future look like. And that for me becomes important. So business then begins to control the narrative. Participant #14*

There is also a view that the idea of doing ownership deals is actually destructive to the economy. This resonates with some of the perspectives raised earlier in this chapter with regard to moving away from the current debate about ownership:

> *I actually think there have been some incredibly negative consequences in terms of lack of entrepreneurship and the concept of how this wealth is being created and whether that is ever going to be a sustainable way unless it is just a continually…here is another deal, here is another deal. If we are not building businesses, stimulating the economy, levelling the playing fields, is it really going to change the next time you are going to do an ownership deal? Participant #5*

> *The only large negative was that some empowerment deals benefitted a few individuals and the equity participation should have been more broad-based. Participant #4*

> *But the point I'm making is that I suspect that the reason it is resented, and you get that negativity, is because it just went too far in making a few noticeable people way too rich. Participant #9*

> *What it did do was to disincentivise black people from starting businesses because this was an easy way out. [A]all you needed is to get someone to give you some funding, you set up a BEE structure, you take equity positions in a few companies. If you knew how the system worked. And you didn't have to go and start a business, which is really difficult and it's a hard slog. So, there are a lot of people, including people who were entrepreneurs, who had started businesses, who decided to quit...who decided to stop, or sell, or liquidate their businesses and join the [BEE] bandwagon. So it's robbed the country from having entrepreneurs. You know, creating institutions and innovations, and*

new industries. New businesses. That's been one of the biggest downsides of Black Economic Empowerment, from an equity standpoint. Participant #8

This observation by Participant #8 is telling – at a time when unemployment is high and rising in South Africa, potential creators of new jobs – entrepreneurs – are more incentivised to become passive investors in existing companies.

5.4.2.5 Unresolved Issues

The fifth and final category or node in this section considers the matters that, after 15 years of implementation and review, still remain unresolved. The most apparent of these, following from the forgoing analysis of the Findings, concerns the question of ownership of companies in the sector:

Let's just start with the equity. The discussions around equity…were always around this principle of this Once Empowered Always Empowered. So, when the transactions were concluded in the financial sector in 2005, there was certainly an expectation from the promoters of the equity transactions then, that the deals were done….But there was this whole question: is this the last of these deals? That question has not been resolved yet. Participant #8

The thing that was always the hardest and is very hard to repeat and I am not sure there is a logic to do it again, is the equity piece. To me that was more in the category of redress: the other things are fixing, fixing our country going forward: more black people in employment, more empowerment financing, more … transformational infrastructure, and there is no problem with continuing that and ramping that up…but the transfer of ownership? I don't think you can do that twice. It is in a different category, the ownership thing is in a different category. Participant #1

The other party, which has been and remains fundamentally important, is the fund management sector, whose is in and who is out? Is the PIC[14] in or out [as a "black" investor]? Participant #6

[14] The PIC manages the assets of South Africa's largest pension scheme, the Government Employees' Pension Fund

Further unresolved matters cover the other aspects of the Charter's pillars that have not been implemented to the fullest extent possible, at least not in the eyes of the interview participants concerned:

> *BEE housing, low-cost housing, after 2008, not much happened actually, in terms of funding the low-cost housing. On the access front, I think the sector is still not friendly or, what, what is the better word? It's not sensitive to the needs of an ordinary customer. [And] small businesses because [it] has to complete with the multi-billion dollar companies. For funding. So those areas need a lot of improvement. Participant #10*

> *One of the issues that remains largely unrequited within the Financial Sector Charter, is housing. [Also] I think the government hasn't created a platform and policy frame that begins to deal with small and medium enterprise development. So the ideas of enterprise development is, I mean, it's probably the weakest part of the entire Charter because it lends itself to checkbox approaches, and sullen compliance. Participant #6*

5.4.2.6 Concluding Thoughts on Issues and Consequences

This section has revealed that there are several areas where – for all its achievements from genesis to implementation – the transformation of the Financial Services sector in South Africa remains a contested and ongoing effort, with some pillars requiring renewed attention. What then can be done to harness the achievements and to learn from the issues of the past 15 years of change in the sector and, in the words of Participant #3, "continue the work we have started"? This is explored in the next section of this chapter.

5.4.3 Future Directions for Transformation in the Financial Services Sector

The final section in this chapter on the research findings looks at the views of the interview participants on the future of the transformation agenda in the sector. The section considers reactions to the original Charter and current Codes; the important question of the role of business in a transforming society such as South Africa; and lastly some ideas for future designs of the pillars of the Financial Sector Codes.

5.4.3.1 Evaluating the Outcomes

The first node looks at the perceptions of the interview participants on the general success (or otherwise) in the application of the Charter:

I think what I find disappointing is that there is just generally sort of been a statement that these things didn't work, which is complete nonsense actually if you look at the facts, if you look at what we reported, but there was very little acknowledgement [of that] and I suppose that just is where we are as a country. Participant #1

So I think the important work that Parliament should have been criticising all of us for was how well we've transformed our senior teams. The criticism that I think is unwarranted was ownership. Participant #18

If an industry does it voluntarily, appreciates it, you can do it [implement] in a constructive way. So, to a certain extent, we were trailblazers, and to show that, hold on, even when legislation comes, hopefully the legislation will pick up from this, and appreciate the lessons coming out of this. Participant #15

I think it was a great catalyst, I think it helped everybody, it probably helped the government too in terms of their thinking, to develop their thinking, but I think ideally you would have wanted the force of government behind it as opposed to it was a voluntary thing, in a more ideal kind of world. Participant #1

So transformation, in my opinion, makes good business sense, because if you get that structure right your ability to maximise profitability and grow earnings is a lot better than an untransformed organisation. Participant #13

The other thing that has [re-]gressed is the composition of the boards. None of them is actually [meeting] the standards on that. Which is quite interesting [as] you have got a huge pool of professional, black professionals, but you still don't have people with management control. And also women, we know there's been progress with, women within the industry, but when coming to management control levels, they are not well represented at that level. Participant #10

And these things will happen. They will happen by dint of the demographic, actually. And by time. You know, well, it's actually… When you look at the problems in transformation of workforces, it's now the top 5-10% of the organisations. Give it another five to ten years, it will be gone. Participant #12

What you need to do is design your strategy, structures to promote two things, and not one thing. The two would be: firstly economic growth rate, and secondly is redistribution, together. Like two, horses pulling a coach. What we did here was to drop the growth one and just have the one horse [redistribution] and it has failed. Participant #2

There is thus a sense, considering these views, that the potential of the Charter, as conceived in 2003 and implemented across the sector for the next 15 years, had numerous aspects that were successful, but it failed to live up to its potential in others. The words of Participant #16 make for a sobering conclusion to this section:

> *If people had really taken the trouble to understand the Charter, and then seriously devoted themselves to doing what the purpose of the Charter, it could have made a huge difference. But sadly, for business, this was compliance.*

5.4.3.2 The Role of Business

The role of business in society was covered in the Chapter 3, and this remains a vibrant, ongoing debate in academic circles and indeed in business. The interview participants were asked to provide their views on this question – the role of business in South Africa today – specifically with respect to transformation and the country's attempts to deal with the triple challenges of poverty, inequality and unemployment. The responses, almost without exception across the range of stakeholders interviewed, indicated that business in South Africa has a role to play in the broader process of economic transformation, a much deeper role than just CSR:

> *I think it is absolutely critical that business is deeply involved in transforming the landscape, insofar it affects your industry. I think in a country like ours where you have obviously poverty and big inequalities, I think every substantial business does have an obligation to try to make sure that its services are in some way contributing to the improvement of the society. Which you don't have to [do] in America, there it can just be CSI. [Here] it is not CSI - it is your core business stuff. Participant #1.*

> *Its role is to be a role model. The first thing some businesses have to do, and I've touched on the retail sector…is to transform themselves, like banks have done, and stop saying that they can't, and understand that they can. Participant #11*

> *But I sort of feel that you've got to let businesses do what businesses do. Play them to their strengths. Use the financial sector to transform the rest of the economy. Participant #12*

> *Business have got to understand that its stakeholders go way beyond shareholders and it also entails the community within which business operates. It's not a South African phenomenon. It's now a global issue about having to deal with the multiplicity of stakeholders. And thus business needs to be leading the charge on its own transformation and accept this thing. Participant #14*

I mean if there was a relentless commitment for inclusive access to financial products and to financial literacy … I mean I think we probably don't fully appreciate the extent of the impact that that would have on society. Business as a force for good [it] is an extraordinary principle that I think we don't fully appreciate. Participant #19

What I'd like to see happening is the kind of things that George Soros talks about: companies which look way beyond the interests of their shareholders because if, as he would say we don't do that then you will get to a point where you are unable to actually provide those returns for your shareholders. It's as simple as that. Participant #21

A number of the interviewees touched on the matter of job creation, and the role of business in facilitating job creation in the country:

I think, first and foremost, let's allow business to be business. Business brings about....They create jobs for us. Their very role already, especially in the financial sector, is to be transformative in its own right. Participant #17

There is only one way you are going to transform this country. And that's create jobs. How do you create jobs? By growing the economy. How do you grow the economy? Through investment. Not through consumption. That's gone. Not through lower interest rates. That's all dead. Only one way. And that's investment. Participant #12

Increase the number of people that are economically active. Find innovative ways to include them. Increase those revenues, find innovative ways of managing your costs and contribute to making, you know, the country a place that is peaceful, less prone to populism. Participant #7

The best engine that we have. That's how I would describe it. Participant #19

There is thus a strong sense from these interview participants that business has an active role to play as a social partner in reducing poverty, inequality and unemployment. These responses suggest the embedding of this role into the core of the business. How this view stacks up against the conventional and emerging descriptions of the role of business as described in the academic literature on the subject – a role that is often contested in publications as much as in practice – will be examined in Chapter 6 discussing these findings. A final quotation on this question captures the essence of these responses, particularly from a Financial Services sector point of view:

Business has got a role to play in …contributing to some social goals of sorts. Beyond paying taxes, beyond doing what is socially responsible. Then there is the other space, which, for me, is really one underestimated, overlooked. Which is that if you are a financial services organisation, [like a bank] we can do our business in such a way that we contribute towards generating more growth in the South African economy. Generating more employment, not directly by growing our own business, not directly by employing more people as a bank, but by lending, intermediating in ways that contribute more to GDP growth. Participant #9

5.4.3.3 Future Directions for Transformation in the South African Financial Services Sector

The final aspect to this chapter of Findings relates the matter of taking the experience and learnings of the Financial Sector Charter and Codes and looking to the future. There are – as described in Chapter 2 – elements of South African society that feel more should be done by the sector to transform itself, notwithstanding the achievements of the past 15 years. And as revealed above, there is a willingness, an intent, to "do more". What then are the suggestions from the interview participants about what they would do differently if they were to embark on this particular journey again? The responses below fall into two main categories, the first of which (perhaps unsurprisingly) covers ownership, and broadening the base of beneficiaries:

We're looking at economic growth policies that takes everything, everybody with on that path, as opposed to isolated incidences of creating concentrated wealth. Participant #13

That's the first thing I would've done really differently, and more imaginatively. I would have definitely involved staff. And then the rest should have been somehow beneficial to society as a whole, rather than a couple of politically-influential members of society. Participant #11

Find a way to get workers to be engaged in and benefit from the ownership culture in organisations. Worker representation on boards, I think, is a big one. I think that will be fantastic. I think it will be a discipline that management will have to deal with. And the board would have to deal with it. And it would connect everyone together … But people start to get some benefit from it. That if the company succeeds, we [workers] succeed. Participant #12

The second set of responses deals with job creation and employment equity in the work place:

SA urgently needs higher economic growth so that more jobs can be created. Future transformation should build in job creation as a priority. Participant #4

I think that I would be a lot more honest about what it takes to bring the levels of transformation that we needed from the skills point of view. Don't throw black people at companies that are not going to have meaningful use for them. The environment is tough in banking. It's really difficult. It's difficult for people who've been in banking for many, many years. If you bring a black person who is not work trained, you're actually destroying them. Participant #17

So the original way of solving the transformation in leadership problem was to hire people and allow them to grow through the business … I think I would have recognised that there probably is more mobility [and hired] people in mid-career. Participant #18

There is also consideration given to the design of the Financial Sector Codes themselves, with an argument being that companies should be given the space to design their approaches in a way that is compliant but creative. This approach would require more trust to exist between the parties that oversee the Codes through the Council:

Look, if we were to start the Financial Sector Charter process now it would've been more complex because the Financial Sector post the [global financial] crisis is a completely different animal. Participant #14

I actually think that you need new energy and say let's take this thing, let's report, because you know, the key lubricant going forward is going to be trust…it might require closed rooms to debate the issues, and place the status quo on the table, then it can go public. Going public, even with the warts, means that you can build trust. Participant #6

If it's done properly by a corporate, you can set up … the way you score, and how you structure your different pillars in your way, and defend it. Participant #20

Debate…how we incorporate transformative issues. Then transformation becomes core to the way you do business. And transformation and growth and development of your business have got to be complementary, not working against each other. Participant #15

[If] we can find a way to make sure that whatever we design benefits largest numbers of people. Participant #9

Emerging from these responses falling under the category of Future Directions, there is a clear sense from interview participants that the concept of share ownership in companies needs to be more creatively extended, and more care needs to be given to the manner in which black employees are hired into particularly senior positions in companies. Finally, there is a strong suggestion that the sector, given the responses around the role of business in South Africa, has the opportunity to engage in a new transformation debate about its achievements, its missed opportunities and thence chart a new course for the next decade or more of this journey. Aspects of these particular findings have relevance to the praxis requirements of this thesis and will be considered further in Annexure 8.

5.5 Conclusion

This Findings chapter has presented data drawn from the primary data collection tool described in the Chapter 4: interviews with 22 current and former senior executives from the Financial Services sector, senior government figures, leaders of trade associations and black business groups, NGOs and labour and community representatives who were involved in the development of the Financial Sector Charter, in implementing it and in monitoring it.

The findings have thus been analysed across 17 years in three phases, offering the researcher an opportunity to interrogate the events that motivated the formation and adoption of the Charter to begin with up to 2004; and then to critically examine the results of this effort through a present-day lens to establish what lessons can be learned to take forward to the next phase of the transformation of the Financial Services sector in South Africa, as set out below:

Part 1 of Research Question: What factors motivated the development of the Financial Sector Charter in South Africa in 2003?		
Phase	Parent Categories	Nodes
Conceptualisation	Catalysts	Underlying drivers Community pressure Influence of NEDLAC Voluntary adoption
	Genesis and Formulation	Wealth creation philosophy Devising the elements Convening Negotiation features Stakeholder interests
Application	Charter Features	Embedding the pillars Using competition Complexities of integration
	Objectives	Aspirations Concerns and fears

Part 2 of Research Question: What lessons can be learnt from the Charter's development and implementation through to 2018?		
Phase	Parent Categories	Nodes
Assessment & Redesign	Successes	Achievements Innovations
	Issues and Consequences	Policy contestation Focus on ownership Other obstacles Unintended consequences Unresolved issues
Application	Future Direction	Evaluating the outcomes The role of business Future design considerations

Table 7. Mapping the research question to parent categories and nodes

A detailed discussion of the key aspects of the findings from this analysis will follow in the next chapter, but it has emerged from this chapter that the South African government, having articulated a policy of economic transformation, faced choices on how to approach transformation in the Financial Services sector: it could dictate the types of changes it wanted and legislate these, as happened in the Mining Charter, or it could allow industry insiders to develop the approach with sufficient countervailing forces involved to ensure its broad policy intentions were accommodated. This choice was articulated as follows:

> *Whether to allow banks, which are given a very valuable permit to create money, to use that permit solely to maximise profits for their shareholders, or whether to intervene … and direct the lending practices of those banks. The risk of intervening is that there is bad lending and the stability of the banking system is undermined. The … Charter suggests that it might be possible to find middle ground* (Tucker, 2010).

Answering whether this approach was the correct one was not the objective of this research, but the data presented in Chapter 2 show that after 15 years: the sector is profitable; its value (by market capitalisation) has grown; it has made progress in transforming its workforce demographics, product base and operating practices to cater for a broader market; and importantly, arising from these findings, it is aware that more needs to be done, not at the periphery, but at the core of its business models. This will be examined in the discussion and conclusion chapters that follow.

6 Discussion

6.1 Introduction

The purpose of this chapter is to analyse the key research findings against the country-contextual issues described in Chapter 2, connecting these with relevant academic literature presented in Chapter 3. A key theme of this thesis concerns the role of business in societies that are confronting significant social challenges, also referred to as grand challenges. It is the opportunity to deepen the focus on the Financial Services sector and its efforts to develop and apply a unique set of economic transformation policies and programmes in response to South Africa's three significant social challenges of poverty, inequality and unemployment from 2003 to 2018, that this thesis has sought to address. The interviews with the people most closely involved in the development, implementation and oversight of the Financial Sector Charter provided the means to achieve this focus.

The MDGs and their successor the SDGs represent a recognition by the country signatories thereto that there are entrenched, structural barriers that act as inhibitors to development (Xie, 2015). The more recent SDGs and their targets are a response to many of the grand challenges or "wicked problems" (as defined by Dorado & Ventresca, 2013) encountered in many countries. As observed by Martí, it is because of the nature of grand challenges that political action is often required to address aspects thereof (2018).

South Africa's colonial and apartheid history set the scene for the emergence of a very particular form of grand challenge: prior to 1994 the majority of the country's black people suffered from high levels of structural poverty, inequality and unemployment (Terreblanche, 2002). With the political transition to a democratically elected government in 1994, a number of what Martí would term "political actions" (2018) were introduced by the new government via specific forms of affirmative action legislation (as listed in Chapter 2) in the late 1990s and early 2000s. As observed from the responses of some of the interview participants in this research, the task of addressing the poverty, inequality and unemployment in the country from 1994 was a huge one (with Participant #2 describing it as "jugular").

Although the 1994 election manifesto of the ANC referred to the need to begin economic transformation (ANC, 1994a), it was perhaps the introduction by the ANC government of the B-BBEE Act at the end of 2003 (South Africa, 2004) that would bring business into the process of economic transformation in a far more direct and multifaceted manner. Even allowing for the "new partnership for development" concept in the MDGs/SDGs, the role of business in South Africa in relation to the social challenges confronting the country has thus transitioned from the volunteerism typically associated with CSR in developed economies, even where shared benefits are identified and sought (Porter & Kramer, 2011), to become integral in the response to the country's economic transformation project.

So integral perhaps that there was scarcely a mention of the SDGs nor South Africa's own National Development Plan 2030 ("NDP") by the interview participants. However, the core issues (grand challenges) of poverty, inequality and unemployment did feature in the interview discourses as significant components of the catalysts from which the Financial Sector Charter was conceived, developed and implemented.

The purpose of introducing the concept of grand challenges into this thesis is thus to provide a globally recognised reference point for analysing South Africa's socio-economic context both in the early 2000s, in which the country's Financial Services sector set out to develop its own blueprint for change, and 15 years later, reflecting on the lived experience of doing so.

As has been shown in the previous chapters, the development and early implementation of the Financial Sector Charter took place just under ten years into the post-democratic period. The aspirations of the Charter's key protagonists were clear: to foster transformation in the sector and the country whilst maintaining a stable yet globally competitive industry. The Charter was launched in an economically optimistic era of the commodities "boom" (Rangasamy, 2009) and as was revealed by the interview participants, there followed a period of energetic and innovative implementation.

Yet a stark issue emerges from the interview findings: there is a sense of disillusionment amongst the leaders (from various quarters) who developed the Charter and those who are tasked with implementing its successor today, particularly about the loss of momentum of the transformation project as they had conceived it in 2003. The prevalence of a negative narrative that seemingly ignores the innovations and successes of the Charter has eroded trust between social partners that was carefully (and at times robustly) built up. The original Charter was itself never given official recognition by government (by not being gazetted for eight years) and has in the current form of the now gazetted Financial Sector Codes become a highly technical, rules-driven document that rewards tactical compliance at the expense of innovation. And where outcomes are publicly reported in scorecards, these are met with suspicion in some quarters precisely due to the technical, opaque methods used to reach legitimate results. At the other extreme, illegitimate methods are followed by some companies seeking shortcuts to the rules, perpetuating the suspicions from social partners.

Contrasting this disillusionment however, was an expression by some interviewees that the changing political leadership of the ruling ANC party may offer an opportunity to "reset" the process. The replacement of Jacob Zuma as president of the ANC in December 2017 by Cyril Ramaphosa, followed by the ANC's victory in national and provincial elections in May 2019, suggests that there may be an opportunity to rekindle the optimism of the early Charter years. In this "new dawn" in 2019 there is an opportunity for the Financial Services sector to take a lead again, by helping to shape a new policy agenda regarding transformation, utilising the lessons of the Charter to build a new cross-sector social partnership (Selsky & Parker, 2005) for the country.

This chapter is thus divided into three main sections: the first section covers what the researcher considers to be the main contribution of this research: new, emerging findings that are highly specific to the research context yet vital in considering the *quo vadis* moment for the sector, and indeed the country, with its promise of a "new dawn" under new political leadership. The second section discusses other key highlights that are linked in particular to the processes and structures arising from the Charter development period, and how these could be applied in considering the charting of the next phase of transformation in South Africa. This includes the impact of transformative business models; the process of convening and negotiating in order to form cross sector social partnerships; and managing business with a high level of ambidexterity when faced with competing economic and social outcome drivers, with the aim of achieving a high degree of Positive Social Change (Stephan et al., 2016). Thirdly, and flowing primarily from the first section, the chapter looks at the implications of the research findings, for companies in the sector and for government.

6.2 Discussion of Key Findings

In light of the opportunity presented to the sector described in 6.1 above in reconsidering its role in the transformation of the country, the following three aspects represent the main contribution of this research: changing the pattern of wealth accumulation; policy contestation within government; and the continuous focus on ownership. The analysis of these specific, in-depth insights drawn from individual participant accounts is set out below.

6.2.1 Disrupting the pattern of wealth accumulation

Academic writings on the early years of South Africa's economic transformation journey (Southall, 2004; Terreblanche, 2002) consider the inherited wealth deficit between the country's different population groups and the promise of B-BBEE legislation to build a more inclusive economy, using the strong redistributive mandate afforded the democratically elected government in 1994 (Tangri & Southall, 2008). From various interview participants it was clear that the opportunity to begin to "interrupt the patterns of wealth accumulation" (Participant #6) was not to be passed up by the government when the Financial Sector Charter was being developed. Some of the means by which this was effected were through share ownership transactions and by promoting Employment Equity targets for black employees. But another avenue was to provide funding to black businesses for growth and by including supply chain targets (i.e. for Financial Services companies to procure from black firms with high B-BBEE scores). In so doing the intention of this design was to create a ripple effect of economic transformation beyond the company itself (Patel & Graham, 2012).

Yet the caution sounded by Southall (2004) in this regard has proved to be well considered: the maturing ownership deals of the companies in the Financial Services sector have often created great value for their beneficiaries (Theobald et al., 2015) and some cases extraordinary wealth (per Participant #2). 15 years of addressing Employment Equity targets has substantially changed the demographic makeup of the employees of the companies in the sector (see Annexure 6). However, the broadest base of the black population in South Africa seems largely untouched relative to the "success" of these two economic strata. The unemployment and poverty data depicted for the country in Chapter 1, comparing 2008 to 2018, are testament to this, and this may represent one of the underlying reasons that some commentators are not satisfied with the level of transformation in the sector (Carrim, 2017).

In trying to understand this persistent wealth gap, it is possible that it is the very design of the Charter's convening structures and its core participants that resulted in part in this outcome. In other words, although there was a diversity of stakeholder interests represented in the Charter process, not all possible stakeholders were fully dealt with in terms of Charter targets agreed in the negotiation process. As noted by Participant #17 the key constituencies represented each got (to a large extent) what they wanted out of the negotiations, even if nobody was entirely satisfied with the eventual outcome (per Participant #1), as depicted below:

Constituency	Desired Outcome
ABSIP	Employment Equity opportunities and participation in company share ownership transactions; Funding for share ownership transactions Funding for black business growth Procurement opportunities
Government	The success of bringing a major sector of the economy under the transformation umbrella Industry agreeing to implement transformation across a broader set of dimensions/pillars, thereby funding transformation in other sectors Maintaining the financial stability of the sector Fiscal revenue from taxation of potential from future gains realized on share ownership transactions
Labour (in the sector)	Employment equity targets, especially for black women; Funding for skills development The prospect of a modest level of share ownership participation

Trade associations / companies in the sector	Opportunity to regain external legitimacy Targets that while new were competitively achievable over time, without onerous implementation costs No major change to prevailing ownership design (e.g. nationalisation)
Community (through ABSIP)	Access to finance via low cost bank accounts, closer proximity to points of presence (e.g. branches, ATMs) Agreed CSI spend targets e.g. to support NGOs active in poor communities

Table 8. Desired outcomes for key Charter constituencies

From this list, the key stakeholder that was not directly represented as an *active* participant in the Charter negotiation process is the Community group, ironically the most vocal in initiating the Red October campaign through the FSCC. And if the Community can be regarded as a proxy for the broadest base of the economically marginalised black South African population, from a wealth accumulation perspective the Charter clearly did not meaningfully address this group in the way it did for ABSIP and labour. Such a design "flaw" can be traced to three factors: the early days of ownership transactions (see Chapter 2) and their narrow focus on key, politically connected individuals; the 2001 BEE Commission report, which favoured a relatively narrow definition of beneficiaries for ownership participation (namely strategic equity partners and employees); and the concept of "trickle down" economics which was alluded to by several interviewees (Participants #2, #13 and #22 in particular). Perhaps for government, representing in theory this constituency, pursuing empowerment strategies for the broadest base of the population was simply a bridge too far, believing the trickle-down economic effect in a growing economy would achieve an indirect yet positive social impact. As noted about the ruling ANC however, "It's always rejected narrow BEE, and yet [it has] always implemented it, at a huge cost to business" (Participant #22), confirming one of the concerns about the proximity of the ANC to business (Tangri & Southall, 2008), that as a party it was more interested in creating a black elite, industrial and professional class rather than in pursuing poverty alleviation (Hamann et al., 2008).

And while it is true that various corporate philanthropic foundations were spawned from some of the ownership transactions of companies in the sector (Anthony, 2018), it is too early to see whether the deployment of the endowments of these foundations will make a tangible difference to the economic situation of the poorest people in the country.

Thus while the Charter has succeeded in building wealth for the middle and upper echelons of the population in South Africa, by bringing more black people into these categories through the design of the pillars, that very design – in hindsight – predisposed this to happen. In looking ahead, more explicit consideration should be given to the broadest and poorest base of the population and how this group can benefit from a future redesign of the pillars of the Financial Sector Codes. This observation is one of the main contributions of this research and is a key tenet of the praxis element of this thesis.

6.2.2 Policy contestation

A second key finding to discuss in this chapter relates to the policy contestation within government regarding the Financial Sector Charter. As observed in the findings in Chapter 5 under the category of Issues, participants in the interview process expressed strong frustrations about this matter, using phrases like "ideological cleavage" and "factions within the ANC". The frustrations (for the industry) arose because the DTI was supposed (in terms of the B-BBEE Act) to gazette the Charter so that it could gain official recognition, but this did not happen until 2012 (and then in a different format). There are a number of potential explanations for this delay. One may be that the SACP and large labour federations (representing part of the Community constituency in NEDLAC) were unhappy about not being part of the Charter's development and sought to block its gazetting by influencing processes within the DTI and the Council to ensure this. However, from the interview responses this reason seems unlikely, particularly in the early years of the Charter when there was in fact support from these constituencies for the Charter and its targets.

A second reason may relate to the DTI itself: it was the custodian of the newly promulgated B-BBEE Act and its responsible officials may not have taken kindly to being excluded from the development of the Charter (which was overseen by the National Treasury department). Participants suggested a high degree of bureaucratic overreach by DTI officials, contrasting with the relatively "hands off" approach of National Treasury during the Charter negotiation. Contrasting this though, from the evidence of the interviewees the Charter in fact provided a blueprint for the DTI to develop the so-called Generic Codes, which apply to most of the other sectors of the economy, and it would have been able to leverage the debates, research, categories (pillars) and targets for the benefit of the Generic Codes. A third explanation may lie in the shift in political power within the ANC that was underway at the time. The ANC's five yearly elective conference took place at the end of 2007 and this saw the removal of Thabo Mbeki as party leader (and president of the country several months later) and his replacement by Jacob Zuma, who at that time benefited from the support of COSATU and the SACP (Matuma, Mataboge, Hunter, & Gqirana, 2015). This transition of national political power saw an effort to change the Charter's targets (for example to revisit the specifics of the ownership targets negotiated in 2003, in order to, as noted by Participant #1, "do more ownership deals" for a new group of beneficiaries) prior to gazetting in 2012.

It is beyond the scope of this thesis to explore and examine in detail the exact causes of the policy contestation and pinpoint them, but an obvious outcome of this policy contestation within the government over that period was a loss of momentum to what had been a very energetic and creative process up to that point. As noted in Chapter 2, the Financial Services industry implemented the Charter regardless of the lack of formal legal recognition of the document, but as observed by Participant #3, the lack of official recognition "cost us badly."

6.2.3 The focus on ownership

A third key finding discussed here, which links conceptually to the wealth creation philosophy and the policy contestation findings above, concerns the intense focus, even "obsession" in the words of one interview participant, with the ownership pillar. From the information presented in Chapters 2 and 3 and from the Findings in Chapter 5, the level of black ownership of companies in the Financial Services sector, and the economy more generally, has been a constant feature of academic writing (see Alessandri et al., 2011; Miller, 2012; Moyo & Rohan, 2006) and press articles through the years before and under review. Perhaps this focus stems from the underlying desire for an economic transition to follow the 1994 political transition, where the "commanding heights" of the economy – the Financial Services sector – is under the control of the majority of the population (i.e. black control). Or perhaps it stems from the early examples of the 1990s "narrowly" defined equity transactions highlighted in Chapter 2.

The fact is that the share registers of large banks and insurance companies (and large listed companies in general) in South Africa are not dominated by individual, retail shareholders, as was reported by National Treasury to Parliament (Carrim, 2017). It is *institutional* investors (retirement funds, collective investment and long-term savings schemes for example) that make up the significant majority of the shareholdings of these companies in South Africa, a situation that was discussed in the same Parliamentary hearings (Carrim, 2017). Furthermore, a number of these institutional shareholders are foreign, with their inward investments representing important Foreign Direct Investment into the country. The structural nature of company shareholdings in the sector was debated at length between the trade associations and ABSIP in 2003 during the Charter negotiations and, with the insight of the SARB, consensus reached on low direct (i.e. individual) shareholding targets of 10% (versus the generic target of 25% that stands in the CoGP). The input of the SARB highlighted the principle of a shareholder of reference: that is a significant institutional shareholder/s to provide the company (e.g. a bank) with additional capital in times of need; retail shareholders are typically not able to provide such capital at scale.

Without getting into the detailed mechanics of how a B-BBEE transaction is set up (see Annexure 7 for a more detailed explanation), in brief the concept is that all existing ordinary shareholders have to take an cut in their shareholding (e.g. 10 shares for every 100 held) to accommodate the new black shareholders. This type of transaction represents a *transfer* of existing wealth to the new beneficiaries, usually at a cost to existing shareholders (both retail and institutional). Whether that new beneficiary is able to build wealth from this new shareholding is then dependent on the financial performance of that company relative to the costs (to the new beneficiary) of funding the acquisition in the first place. As both Alesandri et al (2011) and Miller (2012) demonstrated, shareholder value is often created as a result of B-BBEE deals *over time*, but there are also cases where the poor financial performance of the company has left ownership deals "under water" with no value created for beneficiaries.

While many of the listed companies in the Financial Services sector have concluded successful ownership deals (per Theobald et al., 2015) between 2004 and 2018, their absolute level of direct black shareholding has subsequently diluted as original participants monetised their gains after a predefined holding period. Interestingly, there is no demographic tracking of shareholders in South Africa (by race or by gender), and the ability of institutional investors to report on the "indirect" shareholders by race or gender through their members and policyholders is also not easily achieved. Thus many of the debates take place (as evidenced in the SCOF submissions and report) using proxies or educated guesses. By contrast, the Employment Equity pillar of the Charter, which also stipulates race and gender targets for companies by job grade, is able to track such statistics due to provisions of the Employment Equity Act (1998) which require the collection and reporting of such demographic data by companies. There is consequently far less debate around the data in this area as it is largely accurate and can be tracked through human resources systems.

Partly due to this lack of reliable ownership data, there a persistent debate in the Financial Sector (and other sectors too) about whether companies are sufficiently "transformed" and in respect of the concept of once empowered, always empowered ("OEAE"). As it is not possible to always identify the race of the buyer of the shares (as these are often sold on the open market in the case of a listed company) the OEAE principle created the idea of a high water mark that the company would not have to "top up" when original black participants exited. As was evident from the interview participants, this issue has remained contentious and unresolved. The 2012 Financial Sector Codes and the 2017 revisions thereto have progressively moved away from the OEAE principle. Industry has concerns that the high cost of ownership transactions impairs its ability to lend to other sectors of the economy[15]. Calls for higher ownership targets or more ownership deals to benefit new groups of shareholders carry a high degree of self-interest that again, would merely transfer existing wealth from one shareholder to another, with little value add to the real economy.

One area where ownership concepts have matured from the early 2000s is around the broadening of the base of participants or beneficiaries in such transactions. Research by Patel and Graham (2012) noted how companies were seeking to move beyond "narrow" deals with select individuals and introduce employee schemes, community schemes and even public subscriptions for black citizens. To encourage this, the JSE has developed a dedicated BEE

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[15] Under the country's capital adequacy regime for banks, the availability of capital to lend is disproportionately reduced by a self-funded ownership transaction backed by its own shares as security

sector where only registered black retail investors can trade amongst each other. Unfortunately, the handful of counters (i.e. companies) listed on this sector suffer from price discounts to the main traded share, and there is limited liquidity (low trading volumes), issues attributable to the low levels of disposable income for discretionary (and risky) direct investing for many South Africans. Up to 2019, no financial services companies have listed their shares on the BEE board.

While direct levels of shareholding therefore remain low in South African listed companies, what has been taking place however over the past 20 years is that with workforce demographics changing in line with the Employment Equity targets set for companies across the economy, so too has the underlying makeup of retirement savings schemes begun to be more demographically representative (a feature of the South African workplace is the compulsory membership of a retirement fund of some kind). This in turn has, by the simple factor of time and the high level of institutional shareholding in the sector as mentioned previously, raised the level of black "indirect" shareholding in many companies, including the Financial Services sector.

While the OEAE principle was removed in the 2012 Codes, alternative "top up" or "equity equivalent" mechanisms were negotiated in the form of further funding for black industrialist and other business groups. Having negotiated these alternatives, and perhaps out of principle, the companies in the sector have not yet conducted a second round of ownership transactions.

For many interview participants, the unfortunate outcome of this constant focus on ownership is that the other pillars of the Charter and Codes are not given enough prominence. Interview participants maintain that it is the other pillars of the (now) Codes where real transformation can be effected. It is also why under the Charter document, ownership was dealt with towards the end. As noted by Vuyo Jack, the CEO of verification agency Empowerdex, the "4th phase of empowerment is now upon us" where procurement and supplier development are likely to take centre stage (27four, 2018), not least because the ideological debates around ownership surfaced in this thesis are not likely to be resolved.

There are two particular consequences of this constant focus on ownership, implications which arose from the analysis of the interview findings in the Chapter 5. The first of these is the impact on entrepreneurship, while the second relates to the loss of narrative by the "custodians" of the Charter over the latter part of its application period.

As mentioned above, inherent in the typical model of B-BBEE ownership schemes is a transfer of pre-existing wealth from one shareholder to another. While this outcome may suit the ideals of some proponents of economic transformation in the country, as observed by Participants #5 and #8, the concept has had a negative impact upon existing (and emerging) black entrepreneurs. Noting how being an entrepreneur is a challenging and demanding pursuit, Participant #8 states that it is far easier to for a black business person in South Africa to set up an investment company and secure equity stakes in other (existing) companies who are seeking a black ownership partner than to go through the grindstone of being an entrepreneur. At a time in the country's development when there are persistent calls for more jobs to be created (Presidency of South Africa, 2018) due to growing levels of unemployment (see Chapter 1) it is ironic and deeply problematic that one of the most ideologically important tools of transformation may be having a negative impact on job creation by offering an easy way out for both established and emerging black entrepreneurs, who could be building businesses that create new employment opportunities.

The second matter alluded to above relates to how those who were intimately involved in the Charter's development and early years of implementation (that is, the trade associations of the financial services sector, ABSIP, government and the nascent Council) have never succeeded in a collective effort to maintain an enduring narrative about the successes and challenges that have arisen from the efforts of companies to implement the various pillars of the Charter. Given the enormous effort that went into delivering what at first must have seemed a highly unlikely outcome, this early momentum could well have been perpetuated by means of a co-ordinated reporting campaign. It emerged from the interviews that this reporting function was one of the planned roles of the Council, but the issues that have characterised that body's existence, as documented in this thesis (primarily whether it was to be a watchdog or a reporting body), have evidently rendered such a function difficult to achieve. It was thus left to the annual reports of the companies themselves to report on their own individual scorecards and implementation progress. These individual accounts however, are easy to criticise as being corporate spin, lack the consistency of a universal message to state that businesses in the sector have been involved in trying to rectify the social issues in the country in a significant way, and had made big strides in getting there, even if the implementation had its issues, as alluded to by various interview participants.

There were, as noted by the interview participants, high hopes and aspirations for what the Charter might achieve. It was in many ways seen as a progressive and "catalytic" charter. But the fact that a lengthy report was prepared by the SCOF based on many negative verbal and written submissions from a wide range of stakeholders is, in itself, evidence that an alternative (negative) narrative had arisen in the country in the absence of a more balanced story that recognised achievements but affirmed the need for the sector to do more to foster economic transformation in the country. This may in turn have contributed to the feeling of disillusionment amongst interviewees with the state of the sector's transformation project.

6.3 Applying the Lessons Learned

Following from the preceding section, if the South African Financial Services executives interviewed are contemplating the opportunity to change the trajectory of, and narrative around, economic transformation in the country, what are some of the lessons that can be derived from the design, development and implementation of the Charter? Given the divergent nature of the stakeholders' interests (from "communists to conservative bankers", as Participant #7 phrased it) it is, in hindsight, commendable that the parties were able to reach some kind of workable consensus at all in 2003, given that research has shown how often these collaborative initiatives to generate social value fail to deliver an outcome at all (Powell & Baker, 2017). This thesis provides some relevant examples that may be applied to develop a new framework for transformation, both in and importantly, through the sector.

6.3.1 The Charter's development model

The genesis of the 2003 Charter was introduced in Chapter 2 and explored and presented in Chapter 5, including the external pressure applied to the sector in the early 2000s, pressure which as this thesis has shown, helped bring the leaders of the sector to the negotiating table. Fifteen years later, it is the nature of the country's triple challenges that should be the source of an equivalent "pressure" on not only the sector but government and other social partners to start to discuss changing the approach to economic transformation. Secondly, the design and development of the Charter offers insight on how to run a second phase process, insights that link to the robust action-based, three-pronged approach described by Ferraro et al (2015).

The key aspects of this framework are set out in the tables below:

Participatory Architecture: Discussion on Finding	Considerations for a 2nd round process
Considering the genesis and formulation of the Charter, it is evident that there were varied actors involved in the design stage (trade associations, ABSIP and government), but notably the community element that had been so vocal in initiating and conducting the Red October campaign, was excluded, as was the government department responsible for black economic empowerment policy, the DTI.	The involvement of a wider group of social partners in the subsequently established FSCC was an attempt to broaden the base of participants, though this took place once the core tenets of the Charter had already been agreed. Going forward, both the Community element – more broadly defined – and the DTI should be included more directly in the framework development process.

Table 9. The use of a participatory architecture

Multivocal Inscription **Discussion on Finding**	**Considerations for a 2nd round process**
There were early bilateral discussions between parties, the discussions at NEDLAC and the Financial Sector Summit. Then there was the intensity of the Charter negotiation process and the complexity of developing the charter pillars and accompanying targets. This enabled a diversity of opinions to be brought to the fore – so much so that external mediation was required at times.	Going forward, this diversity of opinions needs to be prevalent, as is a strong mediation presence, but having small groups of knowledgeable, senior leaders from all sides will be vital to give proceedings credibility and gravitas (a weakness of the latter years of the Council's work), and to understand the boundaries of the "possible".

Table 10. The adoption of multivocal inscription

Distributed Experimentation **Discussion on Finding**	**Considerations for a 2nd round process**
The fact that financial services companies compete today based on their published B-BBEE scorecards for both public and private procurement opportunities created (in the early years of implementation in particular) a series of innovations and market-driven feedback loops that meant that learnings of how to achieve various targets became adopted market practices over time.	One of the unexpected findings from the research was the deliberate use of the competitive forces in the sector to drive innovation and more positive outcomes. Harnessing the financial engineering potential of the sector will be important, but such innovations will need to be encouraged not stifled by the narrow application of rules through one-size-fits-all regulatory codes.

Table 11. The application of distributed experimentation

As the executives of the larger companies in the sector who were interviewed indicated, a strong hand was needed initially to sell and then bed down the implementation of the Charter inside their organisations. This speaks to an "ability to manage and navigate institutional complexity" (Ferraro et al., 2015) and such an ability will need to come to the fore again to develop a distributed and collaborative response (Padgett & Powell, 2012) in the form of a new framework for transformation.

Taking the assessment above a stage further, there are three additional dimensions (per Martí, 2018 and Mair & Hehenberger, 2014) to the Charter development process that would be relevant to the development of a new transformation model as advocated above. These are "scaffolding", "proximity" and "convening":

As noted by Martí (2018) scaffolding is the process of using an adaptive structure between an organisation and its social environment. The initial NEDLAC-driven Financial Sector Summit, followed by the Charter negotiations which ran during 2003, gave rise to the Council.

Scaffolding **Discussion on Finding**	**Considerations for a 2nd round process**
The Council was supposed to be this "adaptive structure", bringing together the voices of communities, labour, and other arms of government with the original negotiators of the Charter. The Council has, despite its ground-breaking concept at the time, never fulfilled its potential, as was revealed by various interview respondents under the Issues and Consequences category in the previous chapter.	This is deeply ironic as the concept of the FSCC – premised on the consultative NEDLAC approach – was original to the sector and one of the innovations of the Charter. Going forward it may be that the Council is dropped as a forum and that its policy and consultative role returns to NEDLAC, or the Advisory Council on Black Economic Empowerment (a statutory body established by the B-BBEE Act to report to the president of the country).

Table 12. Scaffolding

Such a sense of commitment to a new transformation framework and to maintain "proximity" to the end goal of solving the country's social challenges would be required amongst the participants in the process to sustain what would undoubtedly be highly complex and contested negotiations:

Proximity Discussion on Finding	Considerations for a 2nd round process
The manner in which the Charter's pillars were conceived and agreed speaks to the emphasis of using the machinery of the Financial Services industry to promote change not only within this industry but to fund transformation (for a profit) in other sectors of the economy too by promoting procurement from black-owned suppliers and loan funding for black entrepreneurs to expand their businesses.	Nonetheless, whilst it is not possible to accurately determine on the basis of a single interview with each of the research participants, whether there was "proximity" in the sense used by Martí (2018), there was amongst those interview respondents from the trade associations, from companies and from ABSIP who were closest to the Charter's development process, a deep sense of personal commitment to change and to embedding that change in their organisations.

Table 13. Proximity

The description by interviewees of the Charter negotiation's year-long collaborative process in 2003 represents an example of Mair and Hehenberger's front-stage and back-stage convening concept (2014):

Convening Discussion on Finding	Considerations for a 2nd round process
The "back-stage" (i.e. separate) meetings of the trade association and their business constituencies, of ABSIP and its black business constituencies and of various government departments allowed the debating of positions and formulation of arguments, which were then presented in "front-stage" gatherings of the key negotiators. While there were clearly divergent positions from all parties that at times required mediation to reconcile, through this convening a "collective rationalisation" progressively took place that enabled the parties to transcend their narrow, initial interests and coalesce around the concepts that became, in the end, the Charter.	If such a back-stage and front-stage convening process can be recreated as part of process to develop a new approach to transformation in the country there is a real opportunity to take tangible steps to addressing the country's present-day economic and social concerns. However trust would need to be re-established between the negotiating parties as a precursor to an effective convening process.

Table 14. Front-stage and back-stage convening

These six areas are thus important examples from the 2003 Charter development process that, if applied to a new transformation framework would help procure a far reaching, yet balanced and pragmatic set of pillars and accompanying targets; creating in effect a new charter to guide a collective transformation effort for the next 15 to 20 years. Such a collaboration would represent a second South African example of what Selsky and Parker describe as a CSSP to further the aims of the catalytic alliance mentioned above. In other words, different types of organisations working together to "address real-world challenges that naturally cut across organizational and sectoral boundaries" (2005). This echoes the observation about the modern-day imperative of business to work with other social partners to "collaborate collectively" towards a larger social aim (Bitzer & Hamann, 2015).

6.3.2 Balancing competing objectives

A further question posed in Chapter 3 was whether South African Financial Services companies have been able to successfully operate in what was described as conditions of ambidexterity, pursuing instrumental or commercial objectives at the same time as addressing the moral objectives of the Charter. These are objectives that are simultaneously "differing and often competing" (Hahn & Figge, 2015). Due to the multiple institutional logics (Alt & Craig, 2016) prevalent in particularly large companies, it is a complex role balancing these two outlooks, even more so when the company is seeking to gain external legitimacy (as discussed previously) yet has to alter its dominant internal logics in order to pursue this outcome.

Emerging from the findings of this thesis there is evidence that this inherent tension between economic and social "performance" was prevalent in local Financial Services companies, not only through the genesis of the Charter, but well into its implementation phase as well. The comments from interview participants indicate there was strong, even heated debate within the various trade associations about the setting of targets and the kinds of concessions that could be granted to ABSIP. As far as embedding the Charter pillars was concerned, again the findings indicate that it required senior level leadership to drive the implementation in the early years when the commercial rationale for the new pillars and targets (and indeed the whole transformation concept) may not have been obvious. The responses of interview respondents and the findings of the Parliamentary committee suggest this tension is once again prevalent in the sector in 2019. Based upon the experience of the implementation of the 2003 Charter, it should be possible to positively leverage this tension again, as noted below.

The quantitative studies cited in this thesis are one example of how shareholder value can be created from black ownership transactions, yet there is perhaps a more direct example of creating economic value from other pillars of the Charter. The fact that the business models of the South African Financial Services companies up to 2003 were exclusionary (in racial terms) was confirmed by several of the interview respondents. The community pressure described under the category of Catalysts arose in direct response to this racially-based exclusion and lack of adequate access to many financial services offerings. The design and implementation of the Charter provided an opportunity to develop new business models and new products targeted at previously (racially) marginalised consumers. The most obvious example of this change is the low cost, entry level bank account known as the Mzanzi account, of which 20 million such accounts were opened between 2004 and 2018. Moreover, the concept of low cost, entry-level banking that the Mzanzi account pioneered has seen this idea effectively becoming part of mainstream banking offerings of all the banks operating in the country.

A very good example of just how far this has developed is Capitec Bank. In the early 2000s Capitec was a relatively small finance house. It has grown into the 3rd largest bank in South Africa by market capitalisation by the end of 2018 (see Chapter 2) by focussing its core product offering at the entry level (largely black) market. The conclusion one can draw from this example is that pursuing transformation has been a profitable path for companies in the sector, speaking to the value of exploring and then embedding a new business model.

Interestingly, and unexpectedly, there was also tension for the government in the Charter process. The ambidexterity literature reviewed is silent on its presence in governments, instead looking at the concept as it applies to businesses. From the findings of this thesis though, it is apparent that the South African government was in a similar state of ambidexterity with respect to the development of the Charter, though for different reasons. A strong driver for the government in this process (both with respect to the Financial sector and the rest of the economy) was to implement its policy objectives for economic transformation: to begin to address the economic legacies it had inherited from the pre-1994 apartheid government (this represents the democratic government's "moral" instrument to tackle the wealth accumulation deficit described earlier).

However, from the interview participants who were active in government at the time, they were also aware of the danger of pushing the targets too far and too deep, in a way that would stifle the sector, or worse, replicate the implosion in shareholder value that took place when the ownership targets for the Mining Charter were leaked in 2002. This echoes the observation of Tangri & Southall (2008) who note that "the government has had competing goals of growth and redistribution". The findings on policy contestation (within government over the Charter design and targets) provide additional evidence that the level of balance in this regard struck by National Treasury (which represented government in the Charter negotiations) was not necessarily agreed to by other parts of the government, nor its labour and community partners.

In concluding this section of the discussion, there are various examples that serve as valuable lessons for contemplating an approach to the development of a new transformation framework for Financial Services companies in South Africa. These examples relate to the need for a range of representative, knowledgeable but pragmatic participants, the manner of engagement and the continued use of the competitive nature of the industry to drive new and imaginative products and services that can be both profitable for the companies but can create social value too. It is equally important for government to recognise that stepping back from ideological ideals can indeed create the space for solutions to emerge from business that can benefit communities and shareholders; and that its redistribution agenda can be better served in a policy environment that does not (even inadvertently) constrain economic growth.

6.4 The Role of Business

Given the preceding discussion it is now appropriate to turn to the underlying theme of this thesis which concerns the role of business in societies confronting major social challenges. As was described in Chapter 3, the role of business in society and the concept of CSR have been debated extensively in academic literature over many years. And as alluded to in the introduction to this chapter, if there is an opportunity today for the Financial Services sector to play a role in re-conceptualising the country's transformation framework and associated economic policy, what should that role be? The interview responses show that over the first 15 years of the Charter (and later Codes') implementation, the initial "compliance" mindset within business evolved into one where (through executive sponsorship) the pillars became progressively more embedded into the fabric of the organisations in the sector that were examined through the research interviews. The highly competitive nature of the industry also ensured that such strategic level change became progressively more operationalised in order to secure a higher B-BBEE scorecard rating, a procurement requirement particularly for government business. However, the necessity of operationalising the pillars has paradoxically raised the risk of treating them as a process to be "complied with", leading in part to the sense of disillusionment within companies interviewed that the "spark" of innovation has gone. In other words, the current Codes are stuck in very much an operational mode after 15 years of implementation.

For the companies in the sector, the idea of pursuing what Stephan et al (2016) refer to as "deep level" strategic change to more positively impact South African society through the provision of more readily accessible financial products and service points, for pursuing Employment Equity and for conducting ownership transactions (for example), was in part driven by a need for legitimacy (Palazzo & Scherer, 2008). As was discussed in Chapters 3 and 5, in the early 2000s the sector did face questions of legitimacy. In the light of the FSCC's Red October campaign, the trade associations of the industry (led by the then Banking Council) acknowledged that the lack of legitimacy in the eyes of a majority of the country's population was a real issue. The urgency around this at the time was driven further by the progressive development of government policy around B-BBEE legislation; this was in effect an "affirmatively created regulatory framework for CSR" (De Schutter, 2008). The combination of these factors led to an elevated level of social participation by businesses in the sector, initially through the Financial Services Summit and then specifically through the Charter. Many companies have thus used the Charter's implementation to deepen their social capital and enable Positive Social Change (Stephan et al., 2016).

That is not to say that all companies operating in the Financial Services sector (and indeed other sectors of the economy) are examples of such change. As mentioned in Chapter 2 there are reported incidences of “fronting” by companies in order to achieve a higher scorecard rating (thus demonstrating what (Stephan et al., 2016) call “surface level” strategic change). However, from the evidence of the companies represented by interviewees in this research, organisations that are large, typically listed on the JSE and thus subject to public scrutiny, there was a deep commitment to adopt the spirit of the Charter even if it took time to implement. Furthermore, in the years following the adoption of the Financial Sector Charter, the DTI launched the Codes of Good Practice for B-BBEE for other sectors of the South African economy, codes which adopted many of the design principles of the Charter. Consequently, this much broader-based “required” approach to effecting Positive Social Change began to take effect across the wider South African economy. Confirming the extent of this change, Hamann et al (2008) note that it has reached a point where B-BBEE and CSR do not neatly “coalesce” as concepts.

In summary, the role of business as demonstrated by the Financial Services sector in South Africa has developed from a traditional or voluntary CSR approach to one where active participation across the pillars of the Charter is “required” (Carroll & Shabana, 2010) both for legitimacy and as revealed by this study, competitive reasons. Both of these reasons are still prevalent in 2019 and in response, one route for companies in the sector would be to continue to drive the current operationalisation and optimisation of the FS Codes and seek to be as competitive (and profitable) as possible.

A second option, which this thesis advocates, would be to recreate the catalytic alliance (Zahra et al., 2009) of the early 2000s and redesign the approach to transformation that the sector can lead over the next 15 to 20 years. This option is explored through a specific example in the praxis (see Annexure 8) and in the next section which sets out the implications of this thesis, both for business and government.

6.5 Implications of this Study

This exploratory thesis hopes to further the body of academic research on the subject of economic transformation in South Africa; and to support the business and government communities in this country by offering participant-level insight into the manner in which a sector-specific approach to transformation developed and unfolded over a period of 15 years. This insight has further revealed that leaders interviewed from the Financial Services sector sense there is an opportunity to reimagine the role of companies in the sector in the broader national project of economic and social transformation. From an academic standpoint the research conducted in this thesis set out to further the work of Bitzer and Hamann (2015) for further examination of various forms of "social innovation" that are taking place on the African continent. Importantly, it serves as a guide to practices that have worked and not worked, suggesting that these lessons can be applied to the development of a new framework for transformation in the South African economy. More specifically, it extends the work of various local scholars – Patel and Graham (2012), Hamann et al (2008) and Moyo and Rohan (2006) – by examining the Charter as a model for implementing transformation at an industry level on the basis of a negotiated approach. It also responds to the call by Eisenhardt et al (2016) for qualitative research into grand challenges. It helps, thus, to support and strengthen the current body of literature on these country-specific topics and confirm the relevance of the international literature referred to in this thesis.

Furthermore, the study has exposed the nuances surrounding the Charter negotiations, revealing a complex series of interactions between various business, government and community stakeholders in the years up to and including 2003 when the Financial Sector Charter was signed. It has also revealed how the momentum and achievements of the early years of implementation of the Charter has become less visible, or even absent, as businesses have adapted to the "new normal" in the years between 2012 and 2018 where policy became uncertain and previously agreed principles were once again contested. While it may be argued that normalising the pillars of the Charter into day-to-day business operations represents an achievement, the fact is South Africa's triple challenges remain, and the "broad-based" aspirations of the Charter remain elusive.

What this research therefore suggests is that the Financial Services sector should recognise that it has reached the end of what may be termed the *first* phase of its journey to become a catalyst for economic change and broader social upliftment in the country. There is an opportunity to regain (or gain further) social legitimacy by embarking on a new phase of this process, building off the lessons of the past phase. The sector needs to reconstitute the platforms (such as NEDLAC or the Council) with senior leaders, or create new platforms, where frank discussions with its social partners (government, labour and communities) can be held about what has not been achieved (or achieved fully) and what their collective aspirations for the next phase might be. Indeed many of the ideas built into the current legal construct of B-BBEE were developed twenty years ago by the BEE Commission and are perhaps due to be reassessed, based on hard data, such as the idea that 25% (or more) of all the shares in companies should be in black hands. By examining rigorously and collectively what the country needs to address in terms of its current deep-seated poverty, inequality and unemployment, the trust and creativity of the 2003 Charter development process can be recreated. The sector can then leverage its financial engineering capabilities to reach a new, broader base of beneficiaries, whilst continuing to embed and competitively refine the elements of the existing Financial Sector Codes that should be carried forward. One specific example of how the ownership concepts of the past and current approaches may be redesigned or repurposed is described in the praxis section in Annexure 8. This aims to provide a tangible example that brings together the financial and governance capabilities of the sector and apply them to a new category of beneficiary that represents one of the most ignored, yet potentially most productive groups in society, namely marginalised youth in this society.

There are three important considerations, however, for any such convening process to be aware of. Firstly, there needs to be an appreciation that the Financial Services sector (and banking in particular) faces significant regulatory capital constraints, which limits both the kind of lending that it can do, and the ability of it to freely distribute surplus profits (the capital rules require certain capital to be retained to act as buffers against future defaults by borrowers or external shocks). Secondly, there is a need to have accurate data on which to assess progress and to set new kinds of targets. This may in turn require further research, either of a commercial or academic nature. Thirdly, from a government point of view, there needs to be a consistency of approach which, from the evidence of this study, has been lost in the years between 2012 and 2018. The scale of the country’s challenges requires creativity and experimentation, and a principles-based, as opposed to rules-driven, approach to the legislation that governs transformation at a corporate level. The latter encourages a narrow compliance, and a "minimalist" mindset, as described by various interviewees, at a time when the opposite is needed.

7 Conclusion

7.1 Introduction

This study set out to explore the Financial Sector Charter in South Africa from the perspective of those closely involved in its conceptualisation, adoption and implementation. Previous academic research has considered general aspects of economic transformation in South Africa, the quantitative impact of ownership deals on shareholder value, and various aspects of B-BBEE, including the Financial Sector Charter itself. But it is the specific drivers and events of the 2001 to 2003 period when the Charter was developed, as well as the intricacies and complexities of negotiating and implementing this (possibly unique) form of undertaking, that has been the focus of this thesis. A number of the findings revealed and discussed here were unexpected and not previously researched in depth, and the academic "canvas" of a thesis has provided an opportunity for the researcher to introduce these issues. What has given the researcher particular motivation to document and discuss these issues is the revelation from some of the most senior leaders in the industry of a desire to "reset" the current transformation process as pursued by the industry since 2003, and look for new ways to address the "unjust equilibrium" (Martin & Osberg, 2007) in South Africa that the original Charter intended to tackle.

It is clear that the development, application and evolution of the Charter has taken the companies operating in this sector well beyond the traditional voluntarism of CSR and beyond even an "expected" type of participation that is often associated with business in developed economies with respect to social issues. Businesses operating in such economies invariably have a choice about the nature and extent of their involvement in societal or CSR activities. From the research conducted for this thesis, the major companies in the Financial Services sector in South Africa no longer have a choice in this regard: transformation has become a competitive necessity. Although jointly developed through a cross sector social partnership, involving an intense, multi-party convening process, at the heart the development and subsequent implementation of the Charter took place against a backdrop of a country firstly with a serious set of grand challenges to address: poverty, inequality and unemployment; and secondly against a policy and looming legislative environment that moved the space for participation in social transformation activities from the "voluntary", past the "expected" and into the "required" category (Carroll & Shabana, 2010).

The researcher initially intended to explore the motivations of the companies participating in the Charter process; however it quickly became clear from early interviews conducted during the fieldwork that the Charter was the product of a sustained and far-reaching collaborative effort, even though it was essentially the product of a negotiation. On that basis it became necessary to focus not only on the motivations of the companies who participated at the time, but to draw in the views of a wider pool encompassing all the key protagonists in the process: ABSIP, trade associations, government, regulators, communities and NGOs. This enabled the researcher to develop a more holistic understanding of how the Charter process actually unfolded through the lived experience of its participants. The main contribution of this thesis is therefore, the insight it has provided on the individual perspectives of the people who were intimately involved in the development and implementation of the Charter from 2003 to 2018.

As far as motivations are concerned, for businesses in the sector it was about regaining social legitimacy whist securing, via negotiation, a level of economic performance from a new operating paradigm of pillars and targets. For government (at the time at least) it was about nurturing a different kind of transformation process that would not destabilise the country's finance institutions and economy yet stimulate transformation activities in other sectors; for black business professionals it was about being a voice for many constituencies, for securing funding and employment equity commitments. For communities (through ABSIP) it was about making financial services more accessible to the broader base of the population. In many of these aspirations that Charter was successful yet, as acknowledged by many interviewees, there remains more to be done, particularly with the opportunity created by new political leadership from the ANC following the 2019 general elections.

Regarding the lessons that can be derived from the review of the Charter from its conceptualisation, formulation and implementation, the multi-party convening structure worked well to bring disparate voices together. The competitive element worked to develop product innovations that the sector had not seen before. The mechanisms to adapt the Charter over time did not work well, especially when the political environment changed after 2007.

Lastly, the broadest base of the population has not directly benefited in the way the upper and middle classes in South Africa have, though in hindsight perhaps the development of their "wealth" was not an obvious, nor intentional target of the Charter's design.

The researcher was therefore able to conclusively answer both the primary and secondary research questions: what motivated the development of the FS Charter, and what lessons can be learnt from its development and implementation. Both of these dimensions were extensively discussed in the previous chapter in light of the revelation from participants that, despite the frustration expressed by many of the interview participants with the "unfinished business" of the original Charter, there is an opportunity re-engage the cross-sector social partnership and catalyse the next phase of economic transformation in the country, utilising the lessons learned as described in this thesis to support the next phase of B-BBEE.

7.2 Future Research

This exploratory research provided the researcher with a number of new insights into the thinking of the highest leadership of some of the main companies in the Financial Services sector, as well as leaders from government, labour and NGOs concerning the Charter. A number of these insights were discussed at length in Chapter 6, but there are several matters that the researcher was not able to explore more fully due to the time and length constraints that are set by the University of Cape Town for a research-based thesis of this nature. Future research may thus wish to consider the following five areas in more detail.

Firstly, the Financial Sector Charter consisted of six pillars, each with operational targets for the companies to achieve. Much emphasis has been placed on the ownership pillar in this thesis (by virtue of its prominence in public discourse) and to a lesser extent the employment equity and access to finance pillars. Yet, as contended by various interview participants, the true value of transformation in the Charter lies in the other pillars such as supplier and enterprise development, procurement, funding for black business and infrastructure financing. Future studies may wish to explore this contention, to see how much (in Rand terms) has been spent or loaned by companies under each of these pillars, and what the economic and social multiplier effect of this funding has been.

Secondly, as observed from the findings, there is the paradox that the policy of transferring share ownership in existing companies into black hands has had a negative impact on entrepreneurship, particularly amongst existing and aspiring black business people. Future research may wish to investigate the claim made in this research by select interviewees that it is easier to become a passive black investor in existing companies than to endure the hardship of starting and running one's own business. It will be interesting to establish if this is a widespread phenomenon and if true, the impact on employment creation and economic growth. Alternatively, whether it is other policy factors such as a lack of funding (the Charter's commitments notwithstanding) or some form of bureaucracy that have played a role in "discouraging" a more traditional form of entrepreneurship amongst black business people, instead of becoming passive investors.

Thirdly, from a more political standpoint, there is the issue of policy contestation within the ruling ANC and between it and its alliance partners, COSATU and the SACP in the years from 2003 to 2018. As this thesis highlighted, this contestation manifested itself in the Financial Sector by the failure of government (in the form of the DTI) to approve the FS Charter for over eight years. This was an undoubted setback for the proponents of transformation in the Financial Services sector, and the architects of the Charter. The researcher offered some initial perspectives and reasons why the Charter may have been the subject of this contestation and future research may wish to explore in depth the reasons for the phenomenon, and indeed the wider impact of the policy contestation on the South African economy over the period in question.

Fourthly, this thesis has made reference, both in the Literature Review and in the Findings, to the Mining Charter in South Africa. In some ways it was the negative market experience of the leaked first drafts of the Mining Charter that catalysed the Financial Services sector to follow a different development route. Studies have compared the two charters (see Hamann et al., 2008) but it would be opportune, with the benefit of the further passage of time, to build on such studies to describe the similarities and differences between the two charters, both in terms of their structure and their relative progress in terms of their transformation objectives, but also whether the respective charters' designs and structures contributed to the strength of the businesses implementing them or acted as a constraining factor, the concept of enhancing social value through adaptive business models (per Martí, 2018), being one example.

A final research opportunity lies in a more regional view of the concept of economic empowerment, to examine the regional examples of transformation as adopted by countries such as Zimbabwe, Namibia and Botswana, following more extreme, similar or different design concepts respectively, again using the mining and Financial Services industries as examples of how empowerment policies were designed and implemented, and their impact on their countries' economic performance over time.

7.3 Closing

In 2019, the Financial Services industry in South Africa may well be at another "watershed", much like it was in 2002 at the time of the Financial Sector Summit, though for different reasons as explored, analysed and discussed in this research. The researcher hopes that this thesis and the suggested praxis (see Annexure 8) will provide companies, policy makers and social partners who are contemplating a reimagined process of social and economic transformation in South Africa with firstly, a sense of the core issues, successes and weaknesses of the design and implementation of the Charter and Codes; and secondly, with insights into the processes that could be replicated, and those which could be discarded, that may help develop a new framework for transformation. The suggested praxis offers the researcher's proposal on how a new model of wealth generation (as opposed to wealth *transfer*) through skills development could be implemented in the form of a new social endowment fund that aims to benefit the young, economically marginalised South Africans who need funding to further their studies and alter the economic trajectory of their lives. This is a counterfactual proposal to the existing construct (Dacin et al., 2011) of wealth transfer inherent in much discourse on B-BBEE in South Africa to date.

On this journey to understand elements of the “unjust equilibrium” in South Africa and one industry’s efforts to address them, the researcher has been guided by the words of Ferraro et al., (2015) to produce a thesis whose findings would result in a new approach to economic transformation in South Africa “that is more participative and less heroic; more ambiguous and less prescriptive; more experimental, and less directive; perhaps less intuitive, but hopefully more effective.″

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Annexure 1 - Affirmative Action Legislation in South Africa

Name of Act	Year Gazetted	Purpose as set out in each Act
Basic Conditions of Employment Act	Act 75 of 1997	To advance economic development and social justice by giving effect to and regulating the right to fair labour practices under the Constitution, by establishing, regulating and enforcing basic conditions of employment.
Skills Development Act	Act 97 of 1998	To develop the skills of the South African workforce and inter alia to improve the quality of life of workers, their prospects of work and labour mobility; to increase the levels of investment in education and training in the labour market.
Employment Equity Act	Act 55 of 1998	To achieve equity in the workplace by promoting equal opportunity and fair treatment in employment through the elimination of unfair discrimination; and implementing affirmative action measures to redress the disadvantages in employment experienced by designated (i.e. black) groups.
Preferential Procurement Policy Framework Act	Act 5 of 2000	To establish the obligation of government to award preferential procurement points to enterprises owned by historically disadvantaged persons, including women.

(South Africa, 1997, 1998a, 1998b, 2000)

Annexure 2 - Elements of the Financial Sector Charter, Generic Codes and Revised Financial Sector Codes

Financial Sector Charter

The 2003 Financial Sector Charter contained the first example of a scorecard used by companies in the sector implementing the Charter to measure progress against a set of predefined metrics or targets. There are six pillars under the 2003 Financial Sector Charter.

The scorecard is based on relative performance against agreed targets (per element, not shown in the tables) and calculated as "points". If the total score is less than 100 points, the actual number of points scored are calculated as a percentage of the total possible.

Section	Element		Available Points
1	Human Resources		20
	Employment Equity	15	
	Skills Development	5	
2	Procurement and Enterprise Development		15
3	Access to Financial Services		18
4	Empowerment Financing		22
5	Ownership and Control		22
	Ownership	14	
	Control	8	
6	Corporate Social Investment		3
	Total		**100**

The financial institution is then given a rating as follows:

Rating	Score
E	< 40%
D	40 – 55%
C	55 – 70%
B	70 – 80%
A	>80%

Generic Codes

The 2007 Codes of Good Practice, issued under the B-BBEE Act of 2003, provided a similar set of pillars and targets known as the Generic Codes, to be applied by all companies unless they fell under a gazetted industry code (such as mining, Financial Services or ICT). There were originally seven pillars under the Generic Codes but these were consolidated down to five pillars in the 2012 Revised Codes:

Element	Available Points	
	2007 Original	2012 Revised
Ownership	20	25
Management Control	10	15
Employment Equity	15	
Skills Development	15	20
Preferential Procurement	20	
Enterprise and Supplier Development	15	40
Socio-Economic Development	5	5
Total	**100**	**105**

Based upon the final score achieved from the table above, an entity receives the following status:

Score achieved (2012 Revised)	B-BBEE Level Status	Recognition Level*
≧100	1	135%
≧ 95 but < 100	2	125%
≧ 90 but < 95	3	110%
≧ 80 but < 90	4	100%
≧ 75 but < 80	5	80%
≧ 70 but < 75	6	60%
≧ 55 but < 70	7	50%
≧ 40 but < 55	8	10%
< 40%	Non-Compliant	0%

* - Recognition level refers to the factor that is applied to the Rand value of a company's procurement spend with its suppliers. Thus R10,000 of procurement spend with a Level 1 supplier will allow the company to claim R13,500 in its procurement score calculation

Revised Financial Sector Codes

In late 2017 the second version of the Financial sector Codes was released by the DTI (following the original gazetting of the Financial Sector Codes in 2012). These broadly maintained the original pillars of the Charter, but with variations in the order, grouping and the points available. It also introduced a more punitive approach for failing to achieve a sub-minimum score in certain pillars: this was by way of an automatic demotion by one level, regardless of the final score achieved. Differentiation was also provided for the different sub-sectors of the industry for the first time.

Element	Weighting			
	Bank and Life Insurers	Short Term Insurers	Stock Exchanges & Brokers	Other Fin. Inst.
Ownership	23	23	23	25
Management Control	20	20	20	20
Skills Development	20	20	20	20
Procurement and ESD*	15	35	35	35
Socio-Economic Development and Consumer Education	5	5	5	5
Empowerment Financing	25	0	0	0
Access to Financial Services	12	12	0	0
Total	**120**	**115**	**103**	**105**

* - Enterprise and Supplier Development

Based upon the final score achieved from the table above, an entity receives the following status:

Score achieved (divided by 109)	B-BBEE Level Status	Recognition Level*
≧100	1	135%
≧ 95 but < 100	2	125%
≧ 90 but < 95	3	110%
≧ 80 but < 90	4	100%
≧ 75 but < 80	5	80%

≧ 70 but < 75	6	60%
≧ 55 but < 70	7	50%
≧ 40 but < 55	8	10%
< 40%	Non-Compliant	0%

* - Recognition level refers to the factor that is applied to the Rand value of a company's procurement spend with its suppliers. Thus R10,000 of procurement spend with a Level 1 supplier will allow the company to claim R13,500 in its procurement score calculation

Annexure 3 - Interview Protocol

Interview preparations:

- Confirm meeting and venue several days in advance
- Meet interview subject and introduce myself
- Explain the research – Overview of the triple challenges of poverty, inequality and unemployment in South Africa. I wish to explore what caused the Financial Sector Charter to come into being, why Financial Services sector companies (voluntarily) participated in the 2003 Financial Sector Charter process, and what lessons may be learnt from this process, looking back from 2018 on 15 years of implementation.
- Explain consent forms and obtain signature
- Explain that all information will be kept confidential and anonymous
- Confirm interviewee is comfortable with being audio recorded
- Set up audio recording device

Research Approval: Advise the participant that:

- This research has been approved by the Commerce Faculty Ethics in Research Committee.
- Your participation in this research is voluntary. You can choose to withdraw from the research at any time.
- The interview session will take approximately 45-60 minutes to complete.
- Due to the nature of the study you will need to provide the researcher with some form of identifiable information however, all responses will be confidential and used for the purposes of this research only.
- Should you have any questions regarding the research please feel free to contact the researcher Justin Prozesky on przjus001@myuct.ac.za

Aim of interviews:

1. The aim of the research is to identify common explanations and themes that emerge from the responses of the interview participants (data).
2. The researcher hopes to then compile these themes into a framework that can inform industry efforts to form a catalytic alliance to engage with social partners in the ongoing development of business's efforts to enhance economic transformation in South Africa. A social development endowment fund may be the product of such an alliance.
3. Answer any questions the interviewees may have

Interview questions:

General interview questions:

1. Please state your name and organisation (or the organisation you were with in 2003)
2. Explain your position within the organization (or held in 2003)
3. Please state how long you have been in this position (or were in that position)

Key questions:

PAST lens

1. How did the Financial Sector Charter process unfold in 2002/3?
2. What catalysed the process?
3. How were you involved in it?
4. Why did [your company/organisation] participate in the process?
5. Who were the key participants in the development of the process?
6. What were the major obstacles to negotiate?
7. What did you hope the charter would achieve, if you looked 15 years ahead?

CURRENT lens

1. Has the promise of the 2003 FS Charter been fulfilled?
2. What should the role of business be in transforming South Africa's social landscape?
3. If you had to start the FS Charter journey again, what would you do differently?
4. What do you think of the concept of a social endowment fund paid for out of company profits each year?

Closing the interview

1. Is there anything you may not have mentioned before you would like to raise now?
2. Is there anything you think I should know or understand better?
3. Is there anything you wish to ask me?
4. Is there anyone else whom you think I should meet and interview?
5. Would you be interested in receiving the results of this study?

Thank the person for their participation

Annexure 4 - Demographic Details of Interview Participants

Participant	Gender	Race	Sector 2003	Sector 2018/19
1	M	W	Banking	Banking
2	M	W	Banking	Retired
3	M	B	Black Business	Mining
4	M	W	Banking	Banking
5	F	W	Banking	NGO
6	M	C	Government	Insurance
7	M	B	Banking	Banking
8	M	B	Banking	NGO
9	M	B	Government	Banking
10	M	B	Labour	Sector Association
11	M	W	Insurance	Retired
12	M	W	Banking	Insurance
13	F	I	Asset Management	Asset Management
14	M	B	Government	Regulatory
15	M	I	Trade Association	Trade Association
16	M	W	Trade Association	Retired
17	M	B	Government	Banking
18	M	W	Asset Management	Asset Management
19	M	W	Banking	NGO
20	M	W	Insurance	Insurance
21	M	B	Political Party	Community
22	F	W	Labour	Research NGO

Annexure 5 - List of Secondary Material

Source	Description	Use in Analysis
Parliamentary Reports	Report of the Standing Committee on Finance into Transformation in the Financial Sector, various presentations made to different parliamentary committees on B-BBEE (approx. 160 pages)	Insights into stakeholder perspectives on the extent of progress made by companies with respect to transformation, and the work of DTI into enhancing the legislative framework
News Articles	12 newspaper articles and press releases covering ownership transactions, B-BBEE, political party involvement in business	Media analysis of the evolution of B-BBEE business transactions from the late 1990s
Research Reports	10 reports (approx. 590 pages of text) covering the value of empowerment equity share transactions, the development of the black asset management sector and unemployed youth	Insights from researchers into the state of transformation in the economy, the extent of black ownership in the Financial Sector, and the scale of unemployed youth/NEETs in SA
Company reports	Annual / Sustainability / Transformation reports on selected Financial Services companies from 2005/6 and 2018 (focus on approx. 60 pages)	Data for early and more recently published BEE scorecards
Promulgated regulations, laws, Charters, Codes and guidance notes	Approximately 360 pages of text pertaining to the Financial Sector Charter, the B-BBEE Act and Generic Codes and revisions thereto; other transformation related laws	Analysis of the development of government policy on economic transformation and economic growth
Economic policies	Various economic policy strategies and frameworks	Insights into the growth and redistributive focus of

	adopted by the South African government since 1994	government economic policy
Statistical Reports	Data and reports published by the South African national statistics bureau, and other research houses (reports cover approximately 190 pages)	Data tables and insights into economic progress in the country using economic data points

Where applicable, these materials have been referenced in the text and included in the reference list

Annexure 6 - B-BBEE Scorecards of Selected Financial Sector Companies

2005 and 2018/9

Scorecards of selected JSE listed companies reporting their progress shortly after adopting the Financial Sector Charter in 2005. The companies are banks unless otherwise stated:

- ABSA
- FirstRand
- Liberty – insurance
- Nedbank
- Standard Bank
- Discovery – insurance (2nd table)

Charter Pillar	Max Points	ABSA	FirstRand	Liberty	Nedbank	Std Bank
HR Development	**20**	9.2	12.62	15.4		15.8
Procurement & Enterprise Development	**15**	12	11.94	10.94		11.4
Access to Financial Services	**18**	10.6	9.11	0		11.41
Empowerment Financing	**22**	19.7	16.0	9		20.11
Ownership and Control	**22**	8	18.8	17.57		18.45
CSI	**3**	3	3	3		3
TOTAL	**100**	**62.5**	**71.47**	**55.91**	**67.5**	**80.17**
Level		**C**	**B**	**C**	**C**	**A**

Scorecards of selected companies reporting under the 2017 Financial Sector Codes:

FS Codes Pillar	**Max Points**	**ABSA**	**Discovery**	**FirstRand**	**Liberty**	**Nedbank**	**Std Bank**
Ownership	**23**	17.94	21.44	25.28	22.33	26.00	23.81
Management Control	**20**	14.30	9.82	12.80	13.25	15.64	14.88
Skills Development	**20**	13.07	17.05	17.04	15.02	14.37	17.62
Procurement	**15**	16.01	18.15	18.61	13.57	18.61	18.83
SED[1] , Consumer Education	**5**	7.60	3.00	6.00	6.69	6.00	7.11
Empowerment Financing, ESD[2]	**25**	26.19	25.48	27.00	24.85	25.58	20.88
Access[3]	**12**	10.19	7.24	11.45	12.00	11.40	11.42
TOTAL	**120**	**105.30**	**102.18**	**118.18**	**107.61**	**117.60**	**114.55**
Level		**2**	**3**	**1**	**2**	**1**	**1**

1 – SED = Socio-Economic Development

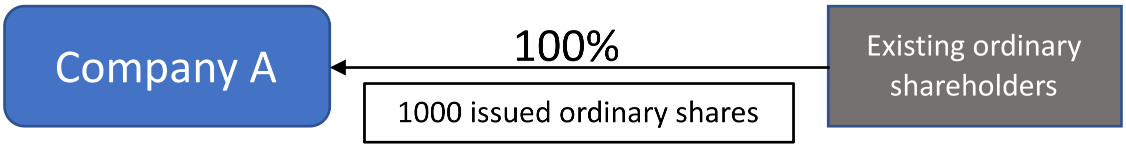
2 – ESD = Enterprise and Supplier Development

3 – Access = Access to Financial Services

Annexure 7 - Overview of Stages in a B-BBEE Ownership Transaction

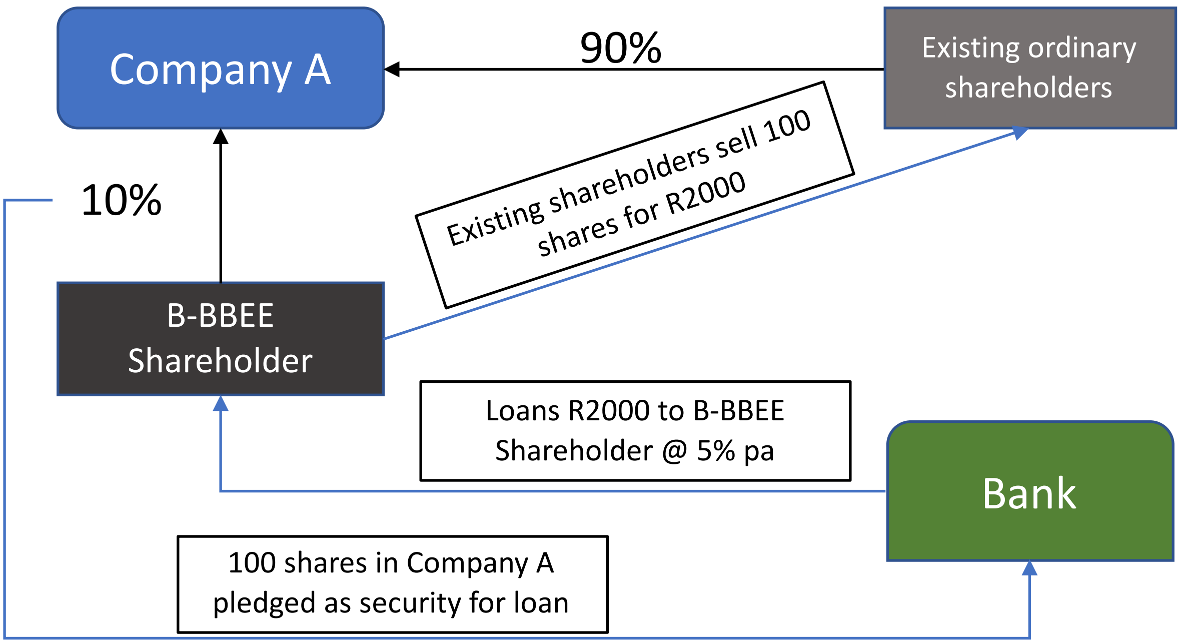
Step 1. Initial position, pre-transaction

Company A is listed on the local stock exchange. It has 1000 ordinary shares in issue; these shares are held widely amongst institutional and retail investors. Company A's shares are worth R20/share.



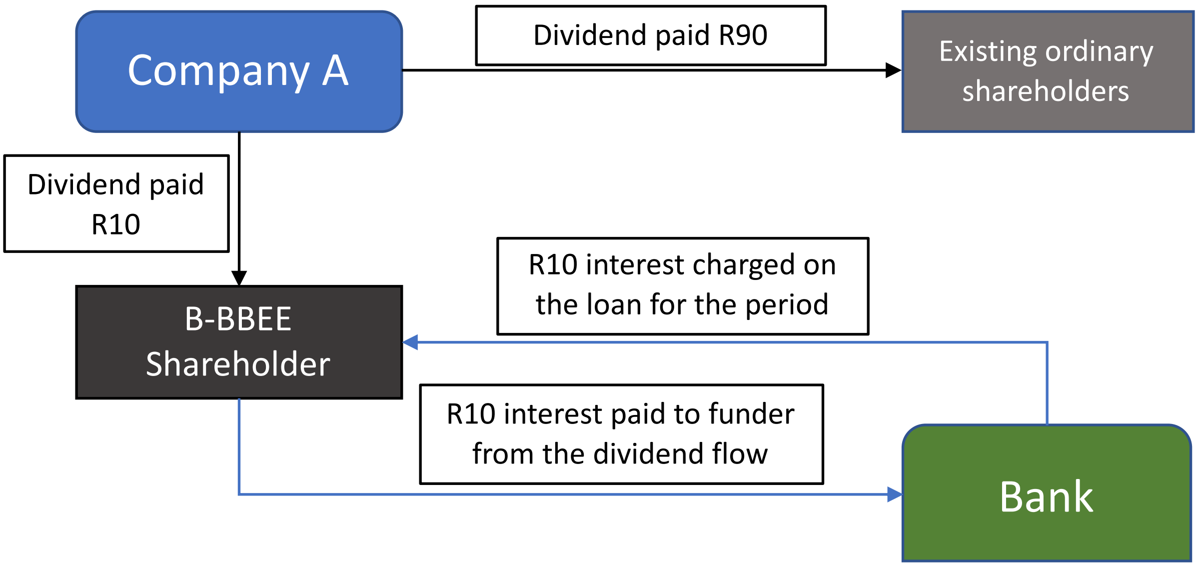
Step 2. Acquisition by a B-BBEE shareholder of 10% of Company A, at market value

Existing shareholders in Company A sell 10% of their shares to a new B-BBEE investor for R2000 (R20/share). The funds for this investment are raised by way of a bank loan, repayable after 10 years, with interest charged at a minimal rate (for illustrative purposes).



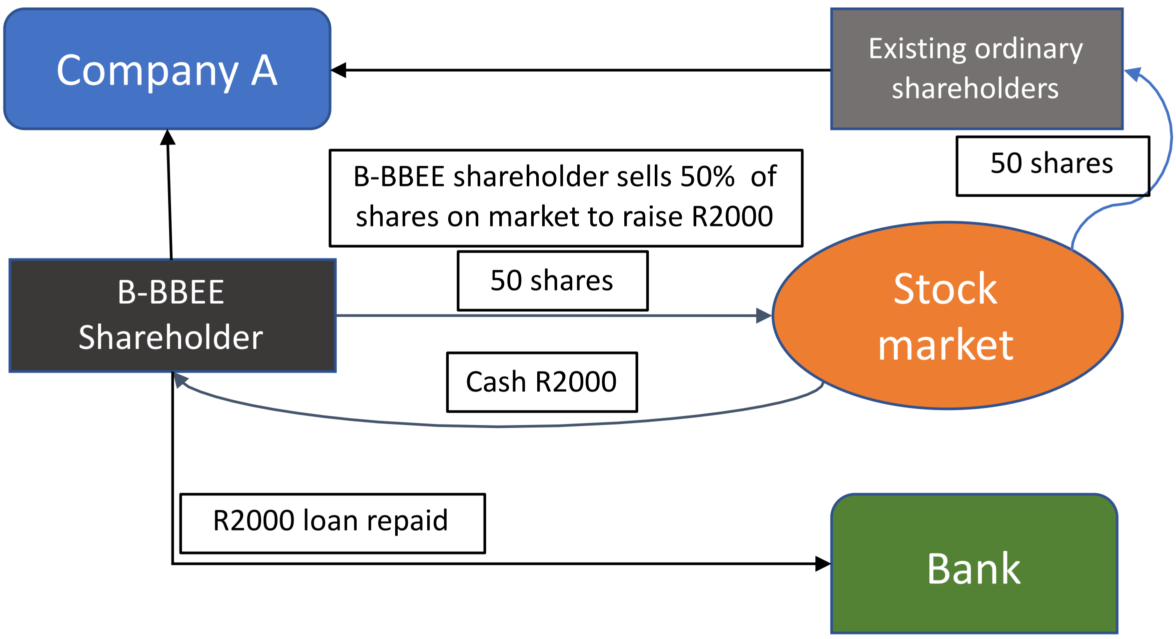
Step 3. Annual dividend declarations by Company A and servicing of loan debt

Company A declares an annual dividend of 10c/share to all ordinary shareholders. Loan terms require B-BBEE shareholder to use the entire dividend to service the interest on the loan.



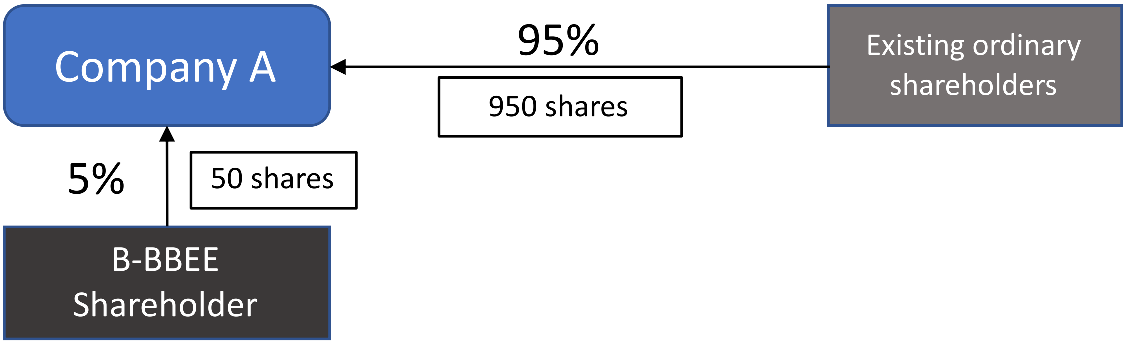
Step 4. Loan settlement after 10 years

At the end of the loan period, B-BBEE shareholder needs to repay R2000 principal debt to the funder. To do this, some of the shares in Company A (now worth R40/share after 10 years) are sold on the stock exchange to raise the necessary funds to repay the loan to the bank (which releases the shares held as security).



Step 5. End position, after 10 years

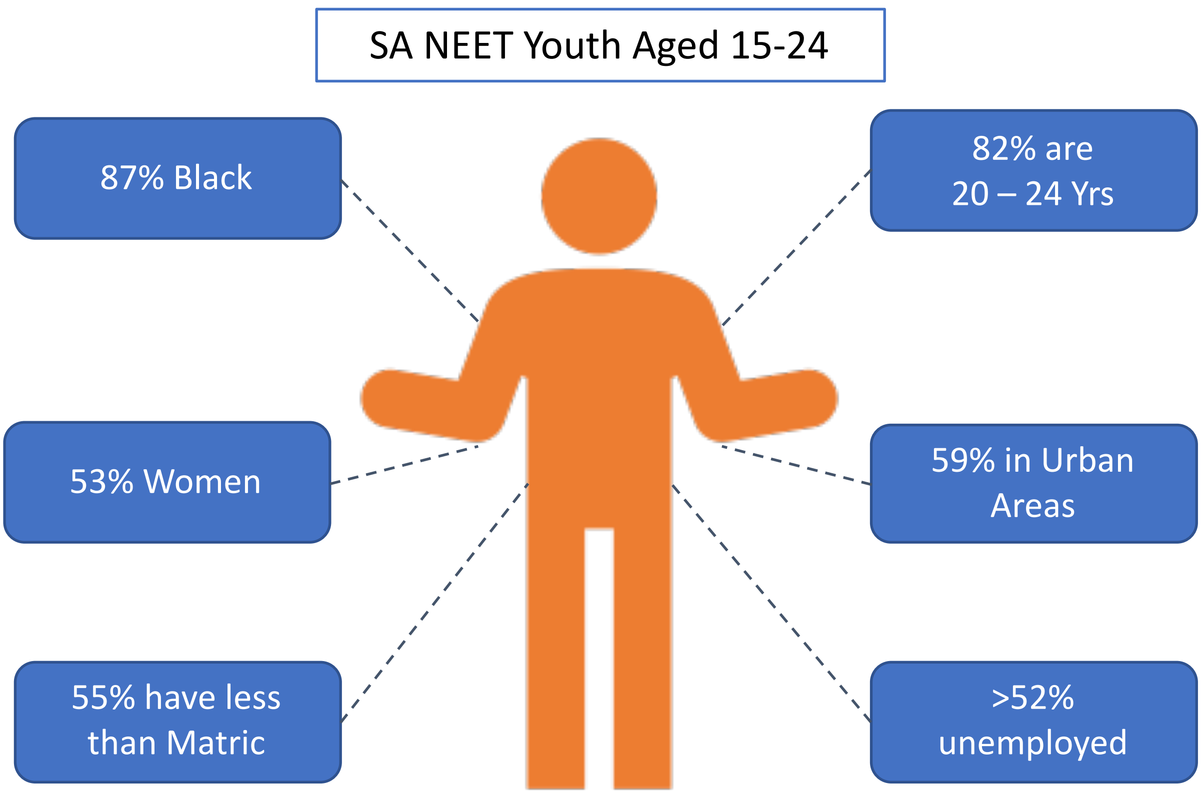
As a consequence of the share sale, the B-BBEE shareholder has diluted to 5%. Company A's ownership points for its scorecard may consequently be reduced, depending on the ownership rules of their particular B-BBEE Code.



Annexure 8 - Praxis

1. Introduction to Praxis

This section sets out the concept of a new form of social development endowment fund that was first outlined briefly in the introductory chapter and referred to further in the discussion and conclusion chapters of this thesis. The concept draws from the idea of a sovereign development fund ("SDF"), a variant of the more common Sovereign Wealth Fund ("SWF") which was described in Chapter 3. It also draws from both the theoretical aspects of the B-BBEE element of share ownership, and the practical experience of implementing such structures that the researcher has enjoyed through his employment in a South African Financial Services company. The aim is to combine these aspects in a practical yet innovative manner that benefits a marginalised group of the South African population: a group referred to as those Not in Employment, Education or Training (NEETs), numbering as many as 5.5 million people.



Annexure 8 Figure A: A Profile of South Africa's NEETs

Research conducted in recent years in South Africa[16] has highlighted that a key issue affecting a significant proportion of NEETs is income poverty: that their (or their family's) economic circumstances are such that obtaining funding to complete their schooling to an adequate level (the school leaving or "matric" certificate) if they have dropped out, or to enter and complete a form of tertiary education, is extremely difficult.

This research also highlights the importance of completing education milestones (such as matric) as important building blocks towards securing lasting and regular employment. Other studies have noted that the economic potential of the county's demographic profile[17] (the "demographic dividend") will not be realised if young people are not properly equipped for the workplace. Thus the creation of a basket or package of services (modelled on a similar programme developed in the European Union for marginalised young people there) to assist NEETs in breaking out of their poverty cycle, would be a valuable intervention.

Regardless of the intervention however, the aforementioned studies have shown that due to the country's socio-economic structure, it is the lack of *funding* that is one of the major constraints inhibiting the ability of NEETs to break out of poverty and become productive economic agents (recognising equally that the country's economic policies need to be revised to encourage investment, growth and importantly, labour absorbing job creation). The prototype described here aims to address this funding need. In so doing it also addresses the following key issues with current corporate BEE ownership structures, which emerged from the research findings:

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[16] See the 2019 Siyakha Youth Assets Study by the Centre for Social Development in Africa

[17] See StatsSA, "Whither the Demographic Dividend", referenced in the main text

Key issues	Description
1. Failure to fully consider the Base of the Pyramid beneficiaries	The precarious economic predicament of many of the most vulnerable people in South African society has not been directly addressed (whether inadvertently or by design) by Financial Sector Charter (and the B-BBEE Act more generally) despite their being deliberate interventions to try to address the economic imbalances inherited from the pre-1994 apartheid system
2. Narrow definition of beneficiary	B-BBEE ownership transactions specifically, whether in the Financial Services sector or in other sectors of the South African economy, have tended to define their base of beneficiaries quite narrowly (particularly in respect of ownership deals concluded before 2004) – often employees and connected strategic partners are beneficiaries
3. Community groups, where included in deal structures, are a small component	While more recent deals announced by companies have offered either a "community" component or even broad public participation, such participants are predominantly in the upper and middle economic classes
4. Failure to produce value for participants – transactions "under water"	Some B-BBEE ownership transactions have failed to produce any meaningful value for their participants. Market conditions (for example driven by a fall in commodity prices) have caused the share price of the companies to underperform the cost of funding the deal; or the availability of dividends on the underlying shares to be insufficient to service the interest costs of the funding
5. Unresolved Once Empowered, Always Empowered principle	After the lock-in period of an ownership deal ends, black participants are able to sell their shares on the open market (for listed companies) resulting in the level of black shareholding diluting away from the "high water mark". With government having walked away from the once empowered, always empowered principle, companies either need to "top up" their deals or look for alternative ways of making up for the loss in black shareholding
6. Cost and complexity of ownership deals	Companies are reluctant to pursue further rounds of ownership deals as this "transfer" of existing wealth often comes at a high cost to implement and is subject to a degree of risk that the deal may not perform, creating no value for the new black participants, as noted above. Regulatory requirements (e.g. awarding new licences) in some industries may trump such concerns
7. Rules and structures favour larger companies	Many small companies are reluctant to pursue ownership deals to increase their scorecard points as they lack the resources to pay for advisory services to negotiate, set up and monitor complex deal arrangements

Annexure 8 Table A: Key issues with current B-BBEE ownership designs

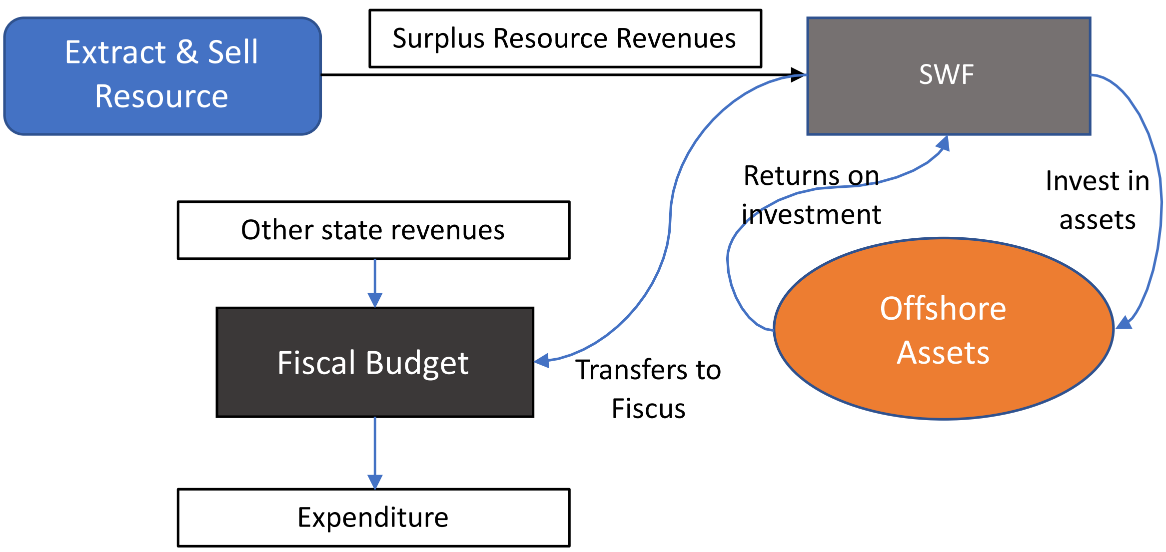
These factors, together with the "neglected" Base of the Pyramid ("BOP") group of the population defined previously, form the rationale for an entirely new approach to B-BBEE share ownership in South Africa that can address the above factors. At its heart, this model is intended to facilitate wealth *generation* at the BOP through funding for education and skills development, as opposed to the current ownership concept of wealth *transfer* from existing shareholders to new (typically black) shareholders, many of whom already occupy the middle and upper strata of the economy.

Consequently, this funding model, called Shares in Society, is aimed at South African business, starting in the Financial Services sector. It is also aimed at policy makers in government to illustrate that new, more creative options should be available for companies to explore instead of the "one size fits all" approach to B-BBEE ownership designs.

2. Concept of a new type of endowment fund

2.1. Sovereign wealth funds and sovereign development funds

The concept of a SWF was explained in Chapter 3 and is illustrated in the diagram below:



Annexure 8 Figure B: Overview of the operation of a SWF

In summary, the basic concept of a SWF is that some (or all) of the surplus proceeds from natural resources sales by a country (in a currency such as the US Dollar) are retained in an offshore account in the name of the country's government. This surplus arises because the cost of producing the asset (typically a commodity such as oil or natural gas) is lower than the international market price. These funds are then invested in either “safe assets” (such as US government bonds) or by purchasing shares in companies listed on foreign stock exchanges, effectively enhancing the balance sheet of the country concerned, with this (theoretically) stable offshore asset base. The SWF’s asset base grows (in theory) over time, and its income derived from these assets such as dividends may then either be reinvested in more offshore assets or repatriated and applied to a specific domestic purpose, such as paying for future old age pension liabilities of the state, specific infrastructure development or social needs (e.g. health care).

A SDF represents a derivative form of the more common SWF; the idea of a SDF is to attract or “crowd in” investment from long term savings vehicles such as pension funds into certain projects, typically infrastructure related, in the country concerned, with low but steady returns derived over many years. As an alternative to funding infrastructure needs, the revenues / income stream from the fund, once established, may be applied to specifically target the raising of human capital levels in the country, through for example direct cash transfer to people, to raise the income levels of the most vulnerable. As noted by Moss and Gillies (2011) “limiting social deprivation can create the time and possibility for developing human capital”. In effect, such a system of cash transfers from the SDF deals with a current social issue (e.g. tackling poverty) using the income stream of an intergenerational savings vehicle, set up with funds from resource-based sales, long-term savings or other sources.

The issues with a SWF for a country like South Africa, given its present economic circumstances are as follows:

- As noted previously in this thesis, South Africa does not have the benefit of the typical surplus-generating natural resources (e.g. oil, gas) to seed such a fund.
- With the proceeds of the natural resources it has historically sold (e.g. precious metals such as gold or platinum) – it did not set up such a fund.
- Were it to set up such a SWF, it is all good and well to hold offshore assets to “benefit” the country at some future date, but when local fiscal resources are constrained and the development demands of the home population are great, it is difficult to reconcile holding such funds offshore, even if the income stream from the fund’s assets are

repatriated to supplement particular services such as education and health care spend to facilitate social development.

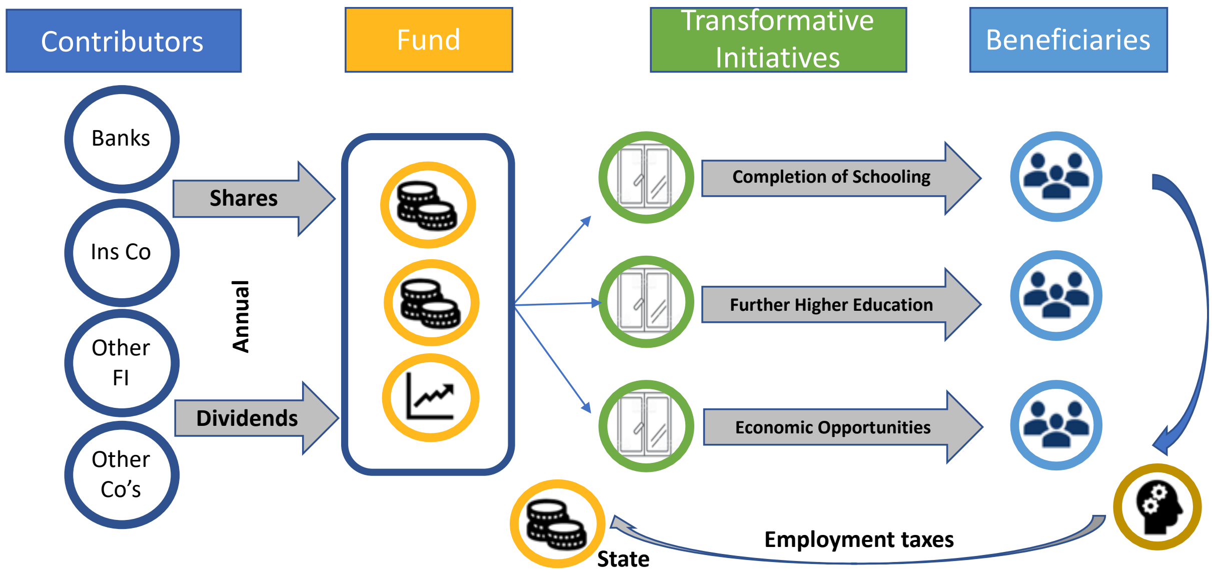
- Lastly, the country has been running budget deficits for close to a decade such that it does not have surplus fiscal revenues to start such a fund at a state level.

However, there are elements of the SDF concept described above that could be achieved, albeit in another form, as set out below.

2.2. Shares in Society Concept

South Africa has a social grant system that pays direct cash transfers to families with children, foster parents and the elderly. This system is funded directly from the national budget each year. Crucially though, young people do not qualify for any funding once they leave school, or from the age of 18, whichever is later, when what is known as the “Child Grant” ceases to be paid. Unless they are able to enter some form of higher education many youth are at high risk of not being able to change the economic trajectory of their lives: they lack the means to further their qualifications to a suitable standard to get into various forms of tertiary education or seek technical qualifications. While there are policy documents that speak to the need for young people to gain further qualifications, skills and experience and enter the job market, there is a real dearth of funding options for the vast majority of such people. Without the means to bring the estimated 5.5 million such NEETs into the workplace, the country risks losing out on the ability to capitalise on its demographic dividend.

The following diagram illustrates the key components of the Shares in Society concept:



Annexure 8 Figure C: Shares in Society Fund Concept

The idea behind the Shares in Society Fund draws inspiration from the social development ideal described under the SDF section above. The Fund will have a capital base and distribute its income as derived from this capital base to economically marginalised young South Africans to further develop their economic potential, as their own financial circumstances are unlikely to enable this. However, the capital base will be progressively provided by *business* in the form of small annual contributions from their profits (in cash or shares) over an extended period (e.g. 10-20 years). This cash will in turn be used by the Fund to invest back into the shares of the contributing companies, progressively building up a small share in each contributing company over time.

As the base of the portfolio of investment shares grows, so too does the annual cash flow into the Fund from the dividends declared by the companies in whom the Fund has invested. It is this cash that is then used to provide the funding for the programme activities of the Fund, which can commence from Year 1 as the cash received is unencumbered (i.e. it is not needed to service funding costs, a feature of many ownership transactions).

In this way, the Fund represents an important shift in the thinking about the model of B-BBEE share ownership structures in the country and indeed the approach to economic transformation.

Item	Description
1.	The SIS concept views economic transformation in the country as a 30 to 50 year project
2.	Wealth generation for the broadest base of the population is the key objective
3.	Pool the resources of the business community (and the Financial Services sector initially) to identify a broader social cause and fund it for an extended period (instead of pursuing solo company deals)
4.	Target the most needy in society, instead of those with the means to participate (employees and/or those with some savings)
5.	If after this time the effort is deemed successful, then a new cause may be adopted for the next 10-20 year funding cycle
6.	The shares held by the Fund in its "target" companies are unencumbered – in other words there is no debt in the structure
7.	The cash flows generated by dividends on the underlying shares are also unencumbered and can be applied from Day 1 towards the programmatic work of the Fund
8.	The shares are held in perpetuity – thus the advantage for companies is that while there is a modest annual cost, it does not affect existing shareholders (i.e. it is non-dilutive as no shares have to be sold to repay debt at the end of a deal term)
9.	The Fund does not have to sell shares if any contributing company's own financial performance is below expectation for a period
Approaching the build-up of assets in this way sees companies contributing a modest amount of profit each year over a sustained period, leading to a progressive increase in the value in the Fund, by virtue of the collaborative, pooling effect of having multiple, smaller contributions as opposed to a single, once-off equity transaction	

Annexure 8 Table B: A broad-based new approach to B-BBEE share ownership structures

Initially the Fund will aim to receive its contributions from the JSE listed companies in the Financial Services sector, but its ambition would be for the contributions to be sourced over time from all the Top 100 JSE listed companies. Over this time period, the contributions would need to be sufficient to develop a substantial asset base in the Fund, forming a permanent endowment for future generations of NEETs. In due course, other listed and unlisted companies could be accommodated as well.

Initial modelling estimates have shown that over ten years the fund could reach a size of R15bn in assets with contributions from the 12 largest listed Financial Services companies (based on an annual contribution equal to 1% of each company's current Skills Development leviable amount; see Section 3.2). This is an ambitious target but it demonstrates the potential of the model, particularly when scaled up across many contributing companies.

2.3. B-BBEE Scorecard Points

A key incentive for companies to contribute to the Shares in Society Fund is that they receive recognition in the form of points towards their annual B-BBEE Scorecard. The following alternatives would need to be agreed with the South African Department of Trade and Industry ("DTI") to achieve this:

1. BEE Facilitator – Ownership Points

The Fund qualifies as a 100% black-owned and 40% women owned shareholder of the investee companies (on the basis of its NEET beneficiary base)

2. Higher Education Funding – Skills Development Points

The contributions by investee companies towards bursaries for black students at higher education institutions, or towards adult basic education training or funding programmes at schools, count up to 4 additional points in this pillar.

3. Equity Equivalents – Ownership Points

Contributions by companies to the Fund qualify as Equity Equivalents as the funds are used for an approved education purpose

Annexure 8 Figure D: Scorecard recognition for companies contributing to SIS

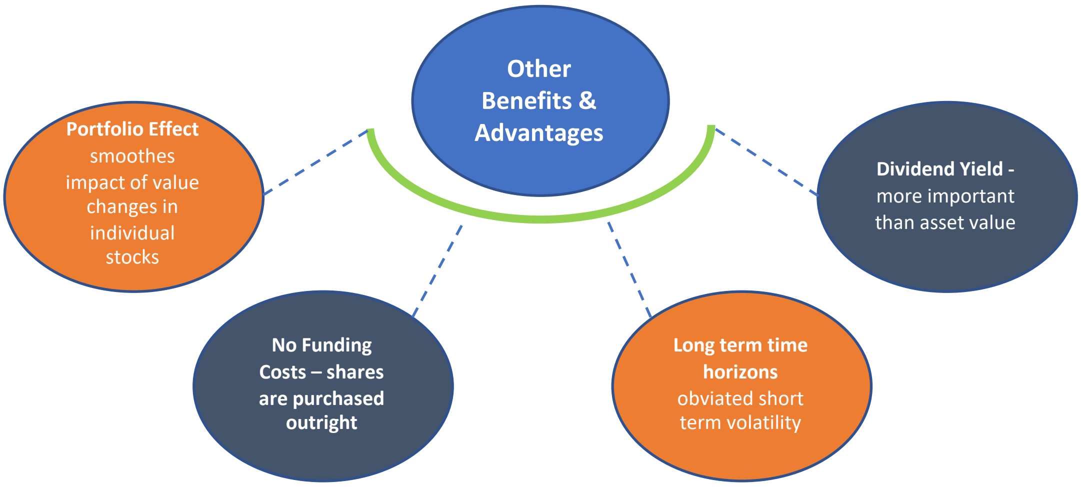
Of these three options achieving ownership points recognition would be the primary objective.

As the Fund is unlikely to ever sell down significant elements of its shareholding (if at all) these shares are effectively held in perpetuity. As a result the contributing companies would not then suffer from the major issue in many existing BEE ownership schemes of dilution after a pre-defined lock-in period, when black participants elect to sell their shares and "cash out", leaving the company with the potential to have to do a repeat deal to "top up" to its prescribed direct ownership points level.

Another target group of companies that would potentially be interested in this fund is smaller, unlisted companies, who are also subject to the ownership requirements of the B-BBEE Act – for most companies this level is 25% direct ownership in black hands[18]. Many such companies (often being owner-managed) are either wary of or have struggled to locate a "black partner" who can add value as a substantial minority shareholder. The costs of undertaking such a transaction are also high for a small company, which typically is not in a position to pay for specialist corporate finance advisors to set up a B-BBEE ownership deal. The ability to participate in the Fund in the same manner as the larger companies and receive some scorecard ownership points in recognition for this may enable such firms to begin their transformation journey on a positive manner without the risks identified above in Table 1.

2.4. Other Advantages

Other advantages for the Fund itself are set out in the diagram below:



Annexure 8 Figure E: Advantages and benefits

[18] 10% direct shareholding is permitted for Financial Services companies

By virtue of its holding shares in a diverse range of companies its asset base is not "endangered" by the fluctuations in value of individual stocks; the "portfolio effect" smooths out these changes over time. Even with this benefit, the actual asset value of the Fund is less important at any point in time than the dividend yield that the investments produce. It is this free annual cash flow steam that is critical to the ability of the Fund to make distributions; too often in B-BBEE share ownership transactions the divided flows are used to pay off funding with an occasional "trickle" dividend paid to beneficiaries if certain payment milestones are met. In this case however, there is no funding as the shares are purchased outright with cash resources of the Fund, as donated by contributing companies. The time horizons of the Fund are also very long term, meaning that short-term volatility in share prices of the companies invested in don't trigger debt covenants or questions about the ability of the Fund to continue as a "going" concern.

In summary, the concept of the Shares in Society Fund is to combine some of the innovative and positive features of B-BBEE share ownership structures, with the development ideals of a SDF. As the Fund grows progressively over time it is able to reach an ever-widening pool of beneficiaries, to fund gaps in their education such that they can become productive economic agents in the economy. As noted previously in this thesis, this concept is a counterfactual alternative to the current discourse on B-BBEE share ownership transactions, which embodies a transfer of existing wealth in companies to a narrowly defined group of beneficiaries. Instead, the Fund would aim to *generate* longer term wealth by using the profits of companies to indirectly pay for skills development initiatives – via a form of further education and training – for a more inclusive and needy group of individuals at the base of the pyramid: NEETs. This Fund would thus enable business to continue to play a valuable, ongoing role in addressing the socio-economic needs of a large group of young people who currently lack the means to meaningfully and sustainably alter the economic course of their lives.

2.5. International examples

The idea of creating a dedicated fund to tackle a specific social cause or causes does have similar precedents in other countries, though there are important differences in terms of the source of the funds, and their application, as shown in Figure 6 below:

United Kingdom GBP 625m

Big Society Capital was seeded in 2012 with unclaimed deposits swept from the banking system, together with contributions from four large banks that had been bailed out by the UK government during the 2008/9 Global Financial Crisis. Big Society Capital operates as an impact "wholesaler", seeking to use its capital to primarily develop a market for investing in social enterprises in the UK, where traditional funders have not previously invested.

Portugal EUR 125m

Portugal Social Innovation was set up in 2014 to kick start the Portuguese investment market focussing on new and emerging ventures (social enterprises and social purpose organisations) that would deal with social problems. This would be both in the form of grants and direct investments (equity and debt), depending on the applicant.

European Union EUR243m

European Investment Fund's Social Impact Accelerator ("SIA") is designed to invest in new and emerging impact funds that did not yet have much of a track record; the idea being that if the SIA invested then the new funds would gain a degree of credibility attracting other more traditional investors such as pension funds. To date the SIA has invested in ten small funds - these funds in turn invest in various social (but for profit) enterprises

Japan Y70bn

Designated Utilisation Foundation was established to deal with the growing number of social problems arising from Japan's aging population, in a way that the public sector could not fully address. It is funded annually from dormant bank accounts and this money is directed towards non-profits working with the aged

Annexure 8 Figure F: International examples of impact funds

These countries' funds all have somewhat different target outcomes and "spend" methods in mind, but they all fall into the emerging class of what is termed an impact investing wholesale fund. The proposed Shares in Society Fund would also class as an impact investing fund, though funded directly by business from profits, and not via the state or "quasi-public" money such as dormant bank balances. By being set up in this way, the Fund enables business to demonstrate a clear and tangible role in solving society's social challenges through a single, co-ordinated approach to gathering and disbursing funding and distributing it directly to where it is needed – to further and complete secondary and tertiary education for NEETs in the country.

3. Funding & Operating Model

3.1. Contributions

As noted in section 2.2 the contribution mechanism would be each participating company making an annual donation to the Fund (either in cash or in the form of an equivalent amount of its own shares), based on a formula linked either to existing Skills Development Levy ("SDL") calculations, or to a measure of profit, such as Net Profit After Tax ("NPAT"). The SDL formula is a based on a percentage (1% is suggested) of the "leviable amount"; this approximates the payroll cost in a company and the idea would be to match the SDL given the connection of the Fund with skills and training outcomes.

The table below illustrates how, for the 12 major Financial Services companies listed on the JSE (six banks and six insurers):

- contributions would grow over a 10 year period,
- the asset base of the Fund would grow over the period, and
- the annual cash flows from dividends on the shares held by the Fund would grow

Contribution at 1% of Leviable amt	Rm	Top 6 Banks	Top 6 Insurers	Total
Contribution in Y1		744,8	335,2	**1 080,0**
Contribution in Y5		940,3	423,2	**1 363,5**
Contribution in Y10		1 258,3	566,3	**1 824,6**
Endowment value at end of Y1		595,8	268,2	**864,0**
Endowment value at end of Y5		3 784,0	1 703,0	**5 487,0**
Endowment value at end of Y10		10 214,5	4 597,1	**14 811,6**
Dividend flows to Fund in Y1		182,4	78,3	260,7
Dividend flows to Fund in Y5		362,5	139,5	502,0
Dividend flows to Fund in Y10		698,3	250,4	948,7
Cumulative dividend flows (10 yrs)		**4 119,0**	**1 557,5**	**5 676,5**

Annexure 8 Table E: Growth in Shares in Society over time

(assumptions listed on final page)

3.2. Building the asset base

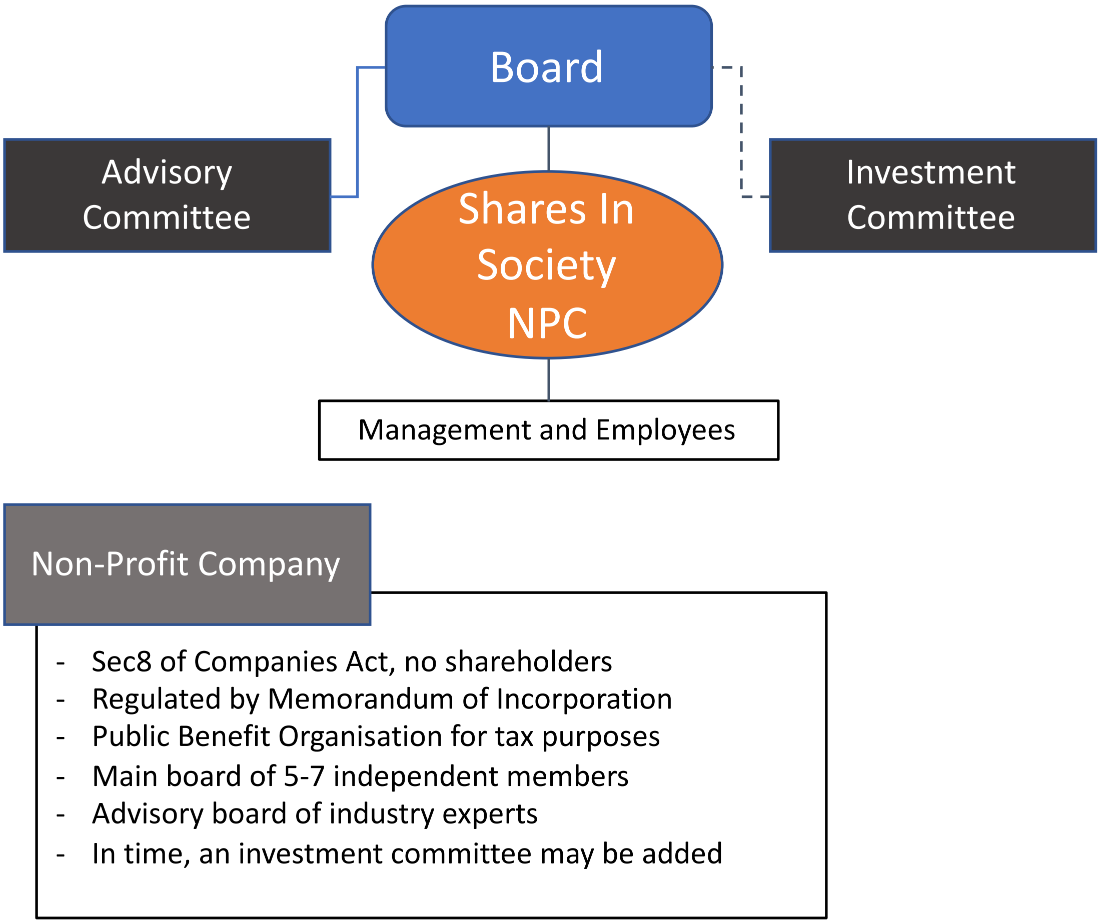
The Fund would use these funds donated each year to purchase shares in the companies concerned on the open market (for listed companies) at prevailing prices and become the beneficial owner of these shares. Alternatively, companies could issue and donate a number of their shares to an equivalent value. Similarly, from unlisted companies who wished to participate, the cash could be used to purchase a number of shares in unlisted companies at an agreed valuation (or price per share). Initially, 80% of the funds received would be used to purchase shares, while 20% would be set aside for immediate use (i.e. funding NEETs), with this 80:20 split moving towards 90:10 over a 10 year period. This would allow for more immediate impact by reaching a larger target group of beneficiaries in year 1.

As the Fund develops further, additional "income" streams could be developed:

- Encouraging small companies to contribute (with their contribution giving them scorecard points as an incentive)
- Encouraging beneficiaries to "pay it forward" if and when they have the means to do so (assuming they become productive economic agents in time, which is the ultimate intention of the Fund), and
- allowing individual donations from people who wish to make a contribution to the Fund from their personal resources.

3.3. Governance Model

The structure and key aspects of the Fund's governance model are set out in the diagrams below:



Annexure 8 Figure G: Governance and company structure

The legal form for such a fund to adopt would be a non-profit company with no shareholders (or members), established in terms of section 8 of the South African Companies' Act. In such a company, the operations of the company are restricted to and regulated by the terms of its Memorandum of Incorporation ("MOI"). Such an NPC is also required by law to have a board of at least three directors who are obliged to act in the best interests of the company in terms of implementing what are termed its "founding objects", as contained in the MOI.

From a governance point of view, the Shares in Society Fund is intended to be set up by business and run by business, independently of government. It is suggested that the board consist of senior respected industry figures (five to seven, potentially retired) from business and civil society. These directors should have strong financial services sector experience, preferably in an executive leadership capacity. While there may be scope for some government representation on the governing body of the Fund, this would be in a minority and/or advisory capacity (e.g. from the Presidency, National Treasury or Department of Higher Education). The board would have the ability to co-opt advisors in specialist areas such as youth unemployment or asset management to help further the objectives of the Fund.

It would also be important to set up an advisory board to the Fund. Many SWFs and philanthropic organisations have an advisory board in place, consisting of subject specialists, to guide the main board in its planning and decision-making. Similarly, in time an investment committee may be established to monitor the diversity of the asset portfolio and the possibility for alternative forms of investment beyond just the shares of the companies which have made contributions to the Fund. Following the growing trend of impact investing, the Fund may be able to use a small portion of its asset base to help catalyse investment in similarly minded social ventures, or new wholesale funds in South Africa (like those described in section 3.1)

3.4. Memorandum of Incorporation (MOI)

The key terms of the Fund's objects, as included in its MOI would be worded along the following lines:

Item	Description
1.	The purpose of the Company is to promote economic development, social upliftment and the alleviation of poverty in South Africa through its programme work
2.	The Company will establish and grow a sustainable asset base over time primarily by investing in the shares of the companies operating in South Africa, and income from this asset base will be applied to one or two social causes confronting South Africa
3.	The asset base will be established on an unencumbered basis, using cash or share donations made to the Company by participating donor companies, or individuals

4.	The annual cash flows received from the investments established under 2 and 3 above will be applied to funding identified social causes, with a primary focus on funding the achievement of secondary and tertiary educational qualifications for young South African youth under the age of 35, on a demographically representative basis
5.	In achieving the above objects the Company will work through partner or intermediary organisations to distribute its income for the benefit of its target beneficiaries, alternatively the Fund may make direct distributions to beneficiaries in a manner that enables an efficient direct distribution of funds to them, provided such distributions are consistent with the objects above.
6.	The Company may leverage a portion of its asset base provided that this is intended to raise further funding pursuant to the objects of the Company.

Annexure 8 Table F: Key terms of the Shares in Society Fund's MOI

The reason for having a narrowly defined set of objects is that this focus enables the Fund to concentrate on a core purpose, namely the provision of funding for qualifying NEETs for progressing their educational and training qualifications.

The reason for the inclusion of the final object is based upon the experience of other international impact funds, such as Big Society Capital, which have been able to catalyse the funding of various initiatives in the UK by using their capital base to crowd in other funders, including commercial funders, thus growing the size of the impact investing market and the amount of funding that becomes available for BSC's interventions. It took a number of years for BSC to be able to achieve this "leveraging" effect, thus this object is included for possible future use by the Fund.

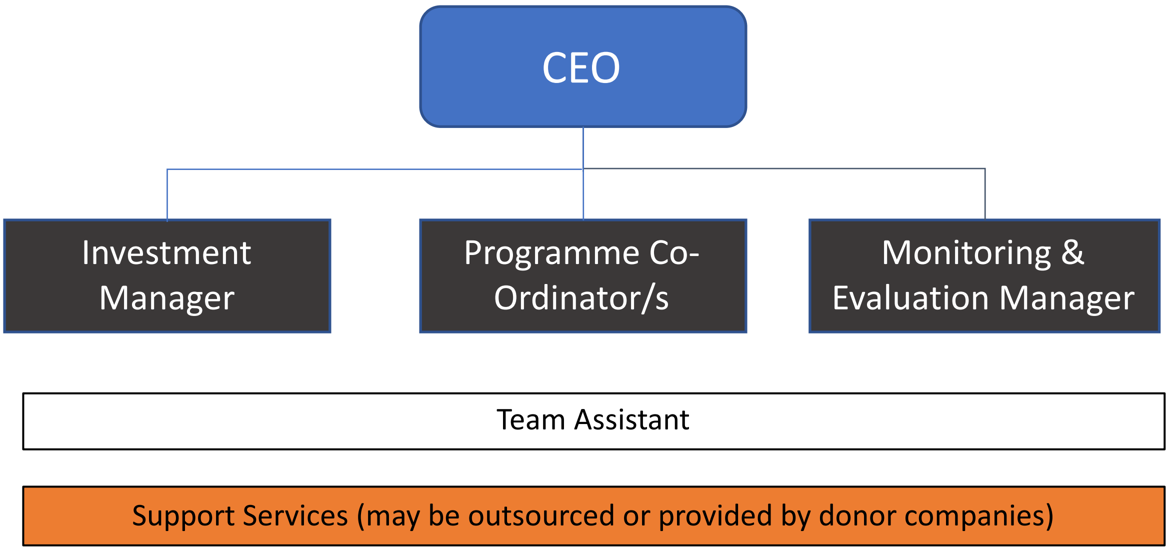
3.5. Public Benefit Organisation Recognition

In order to further enhance its financial position, the Fund would apply to the South African Revenue Service for exemption from the payment of income tax under the provisions of the Income Tax Act that pertain to specific kind of public benefit activities. Given the strong focus of the Fund's activities on education and skills development, which are both referenced as public benefit activities in the 9th Schedule of the Income Tax Act, it is likely that the Fund will qualify for a "PBO" exemption. The effect of being granted such an exemption is that the receipts of the fund from the donor companies are tax exempt, meaning that the maximum benefit of the income cash flows can be applied towards the Fund's investments and in turn grow the cash flows available for the identified social causes. Otherwise the income of the Fund, less allowable expenses, would be taxed at the corporate tax rate of 28%.

4. Operating Model

4.1. Organisation structure

An organogram illustrating the potential operations of Shares In Society Fund is set out below:



Annexure 8 Figure H: Shares in Society organogram

The Fund itself would function with a minimal operational footprint: as it functions with a "buy and hold" approach to the shares it holds as long-term investments, it does not (initially at least) need a team of investment specialists constantly rebalancing its portfolio seeking an optimal level of growth in asset value. It simply needs to buy shares on the open market when funds are received from the contributing companies. Its focus can thus be devoted towards the deployment of its cash income each year.

From an operating perspective, the aim would be for Shares in Society to allocate not more than 5-10% of annual donations for operational expenditure purposes, in order to maximise the use of available funding for its programmatic interventions. The Fund would therefore initially be staffed with a small employee base of around five, under the leadership of a Chief Executive Officer.

It may also be able to draw upon support from its initial donors in the Financial Services sector for IT, finance, human capital and office infrastructure requirements, particularly in its early years. In addition, the Fund may also choose to outsource key functions to competent third parties, such as the investment management aspect of its operations. Importantly, much of its work will be at the "delivery" end and here it will to partner with established organisations (be these for-profit businesses, social enterprises or NGOs) with a track record in their particular domain, rather than setting up greenfields interventions. It may be that as the Fund matures it becomes necessary to set up or develop particular aspects of its usage model (described below) and related underlying technologies and such capacity will need to be catered for in the operational structure of the Fund (provided these developments are aligned with the MOI).

4.2. Impact Measurement

A key tenet of the operations of Shares In Society would be firstly to operate off research-led interventions (particularly research directed towards understanding the needs of NEETs themselves); secondly to track the impact of its programme interventions; and thirdly to catalyse further research into the NEETs and to share this and the knowledge gained from the work of the Fund and its operating partners. Such tracking supports not only the Fund's own direction but also enables reporting to the donor/contributor, wider academic, policy-making and NGO community on the effect that the funding is having on the targeted beneficiaries. This knowledge sharing would aim to benefit the policy making, education, philanthropic and business communities.

Impact measurement is growing in its prominence across the global philanthropic and corporate social responsibility industries, led for example by the Global Impact Investing Network ("GIIN"). In this regard Shares in Society will aim to track outcomes in addition to the inputs (i.e. funds spent).

Assessment Area	Analysis of Data	Ongoing Assessment Criteria
Type of outcome	What outcome does the effect relate to, and how important is this to the target (e.g. NEETs)	Outcome is: - Positive / Neutral or - Negative
Depth of effect (outcome) over time	How much of the effect occurs over the time period	Outcome is: - Marginal or - Deep
Number of people affected	The range (and category) of people affected	- Small number or - Large number
Benchmarks with existing data	How does the effect compare to what is likely to occur anyway	Outcome is: - worse than would occur anyway - better than would occur anyway

Annexure 8 Table G: Impact measurement areas

(Adapted from Impact Investing South Africa)

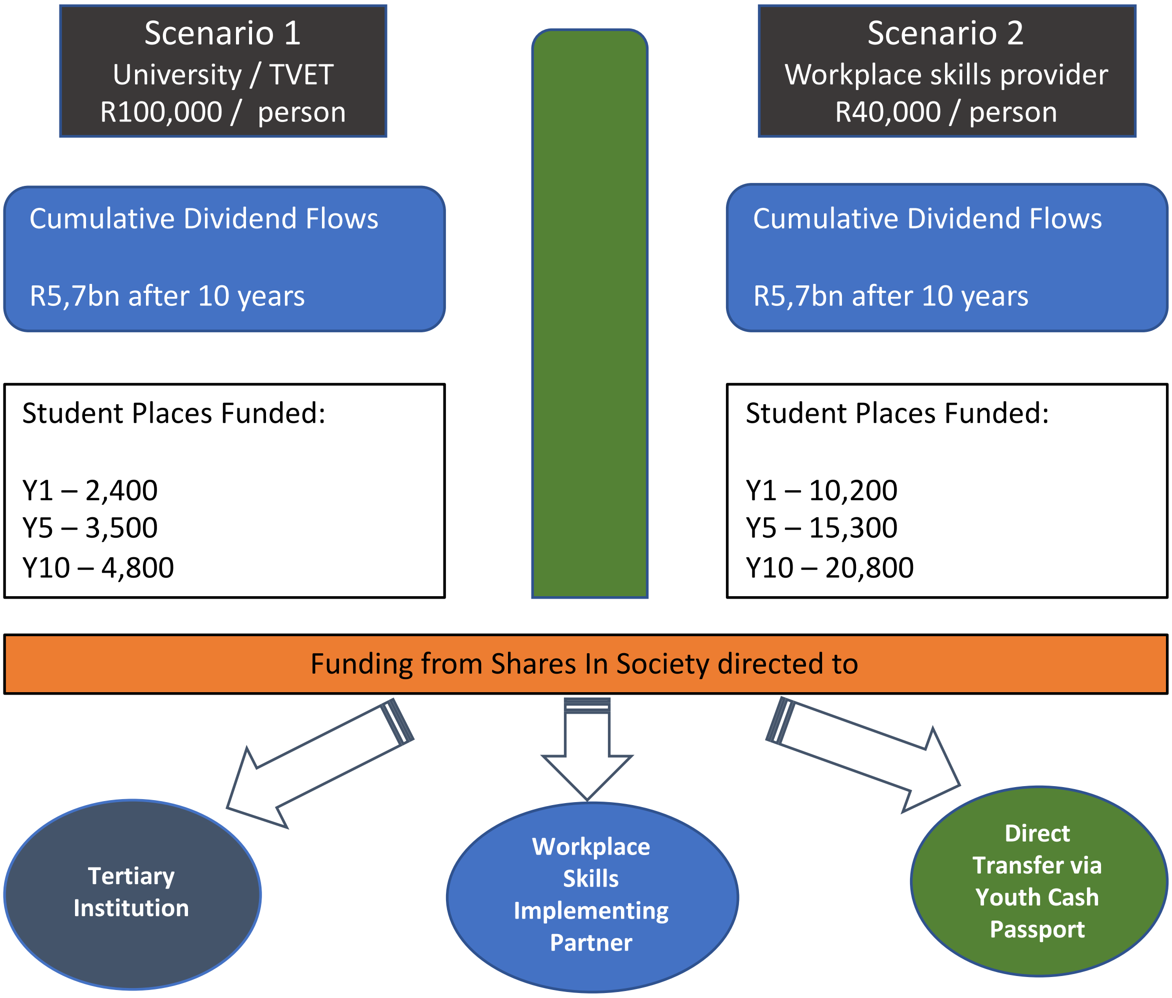
5. Disbursement Model

5.1. Reach

As can be seen from Figure 2 setting out the overall concept of Shares In Society, the ultimate purpose of the Fund is to use the income generated from its capital base to provide funding for the further education costs of young South Africans, specifically the NEETs. This could be to complete their secondary (i.e. matric) qualifications and/or from there to progress towards completing a form of tertiary qualification. Such beneficiaries would not normally be able to afford the costs of such studies due to their (or their family's) economic circumstances, as noted in Section 1.

The initial modelling exercise undertaken on this idea is set out below, based upon the contribution data set in in section 3.2. The object was to see how many students could be funded each year over a ten-year period with the Fund sourcing its contributions from the top 12 largest listed Financial Services companies. The starting point was a sum of R100,000 per annum per student (costs to study at a tertiary institution in 2019), escalating at a rate of the South African Consumer Price Index (or 6% pa) over the ten years, as a proxy for the increase in study costs. For comparative purposes, the costs of attending a reskilling / basic work-entry and readiness programme (R40,000 per annum per student, increasing at 6% per annum) was also modelled.

The results of the two options are set out below:



Annexure 8 Figure I: Disbursement options

From the first scenario it can be seen that the Fund, with a modest base of donors from the Financial Services sector, could fund the studies from 2,400 (year 1) to over 4,800 student places (year 10). The second scenario, with a lower training cost per person, can be scaled to reach more beneficiaries (over 20,000) by the tenth year.

With a larger group of donors, there is significant potential to grow the base of recipients. Given the scale of the NEETs funding requirement alluded to in Section 1 however, the Fund would ultimately need to scale up to tens of thousands of beneficiaries each year, and that would require contributions from many more companies outside the Financial Services sector. The design of the Fund therefore does not limit its application to a single industry.

A number of possible alternatives could be pursued by the Fund for its disbursement model, as shown in Figure 9 above. The specific form of each would be refined based upon research on end-user (NEET) needs, but from existing research[19] it is clear that funding to attend a second-chance school, workplace preparation or tertiary (traditional or technical) institution of high quality is most needed:

1. Direct payment to accredited training providers, particularly those with an excellent reputation for assisting school drop-outs to pass matric through second chance programmes; and/or to artisan training providers who have a proven track record with placing artisans into jobs for the practical training component and upon completion; and/or to traditional tertiary institutions.
2. Creating a youth cash "passport", means tested for every poor young person. This passport can then offer a cash injection at a certain age to pursue studies, with payment to the training institution, and potentially a small "kick-start" lump sum to the student upon successful completion of their studies/training as some seed capital to buy equipment / tools or to start a small business.
3. As an extension of 2 above, the passport holds an "experience" file of community support work during teenage years and early adulthood, tracking all such interventions and based upon this behaviour the passport unlocks certain amounts for certain activities, including further studies, or providing seed capital to help start a small business (such as buying a toolbox).

This passport concept, per 2 and 3 above, could be developed with blockchain technology and become an important (and verifiable) source of positive, community-orientated behaviour that can be used not only by the young person concerned but also by potential employers and even funders for behavioural scoring. The provision of this behavioural data could potentially provide a source of revenue for the Fund.

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[19] See Centre for Development Research in Africa, 2018

However, the researcher recognises that further research is required to establish the best use case/s for the Fund, in other words to determine which interventions have the greatest potential to make a meaningful and lasting difference to the ability of a NEET to secure lasting employment. Through such research, it is key from the principle of inclusivity that the needs and perspectives of young South Africans are understood in the development of solutions that the Fund could finance.

5.2. Pilot implementation

It is suggested that a proof of concept be piloted in order to:

- create the legal entity that will house the Fund, with its PBO and B-BBEE status established
- further develop the contribution model with a small pool of initial funders from the Financial Services sector,
- test one of the potential usage models outlined in the preceding section.

For example, artisan training could be adopted as the initial use case, partnering with a recognised training provider with funding provided to a small pool of artisans they have identified for the three-year qualification period. Alternatively, or in parallel, a separate pilot could be conducted on a similar basis with a second chance schooling programme. While this pilot is underway, additional research can be conducted to develop the youth cash passport idea, and the technology components needed to make it function effectively for NEETs.

From a funding point of view, the pilot would seek a more modest contribution from the initial pool of companies, recognising that an additional 1% of payroll costs (modelled in section 3.2 as the rate of contribution to the Shares in Society Fund) is a significant request to companies for an unproven concept.

Ten for 10 Proof of Concept

- 10 companies e.g. from Financial Services sector
- R1m contribution per company each year, growing at 6% p.a.
- 10 years of contributions per company
-
- Asset Base of the Fund at Y10 is R90m
- Assets of the fund are the shares in the donor companies
- Annual cash flows from dividends: Y1 R3m / Y5 R4m / Y10 R7m
- 85 places at a work-readiness programme in Y10
- Cumulatively, 350 places on the programme provided

Annexure 8 Figure J: Suggested funding model for pilot project

5.3. Contribution Model – Key Assumptions

- Contributions to Fund — 1% of Leviable Amount (per Skills Development Act)
- Rate of staff cost growth — 6% / annum
- Rate of Share Price Growth — 5% / annum
- Dividend yields - Banks — 4.7% (average)
- Dividend yield - Insurers — 5.2% (average)
- Top 6 Banks — FirstRand, Nedgroup, ABSA, Standard Bank, Capitec, Investec
- Top 6 Insurers — Old Mutual, Liberty, Sanlam, Santam, Discovery,
- Study costs
  - Tertiary institution (TVET) — R100,000 / annum (year 1)
  - Work Readiness Programme — R40,000 / annum (year 1)
  - Fee inflation — 7% / annum